

★ NEW FORCES SHAPING 1961 MARKET ★

The MAGAZINE WALL STREET

SPECIAL PREVIEW
ISSUES... Part 1

and BUSINESS ANALYST

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JANUARY 14, 1961

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THE RESILIENT CUSHION UNDER OUR ECONOMY

By HOWARD NICHOLSON

★ PART I... 1961 OUTLOOK VARIES FOR MAJOR INDUSTRIES

offer best prospects — which face problems

By WARD GATES

In this Issue:

Steel-Chemicals-Autos-Electrical Equipment-
Construction-Machinery-Rubbers-R. R. Equipment

★ *Special Investment Features* EXCELLENT COMPANIES GROWTH PHASE TODAY

By PAUL J. MAYNARD and EDWIN CAREY

★ Appraising Investment Status OF UTILITIES in 1961

By OWEN ELY

★ WHICH RAILS MAKE the GRADE in 1961?

By ROBERT B. SHAW

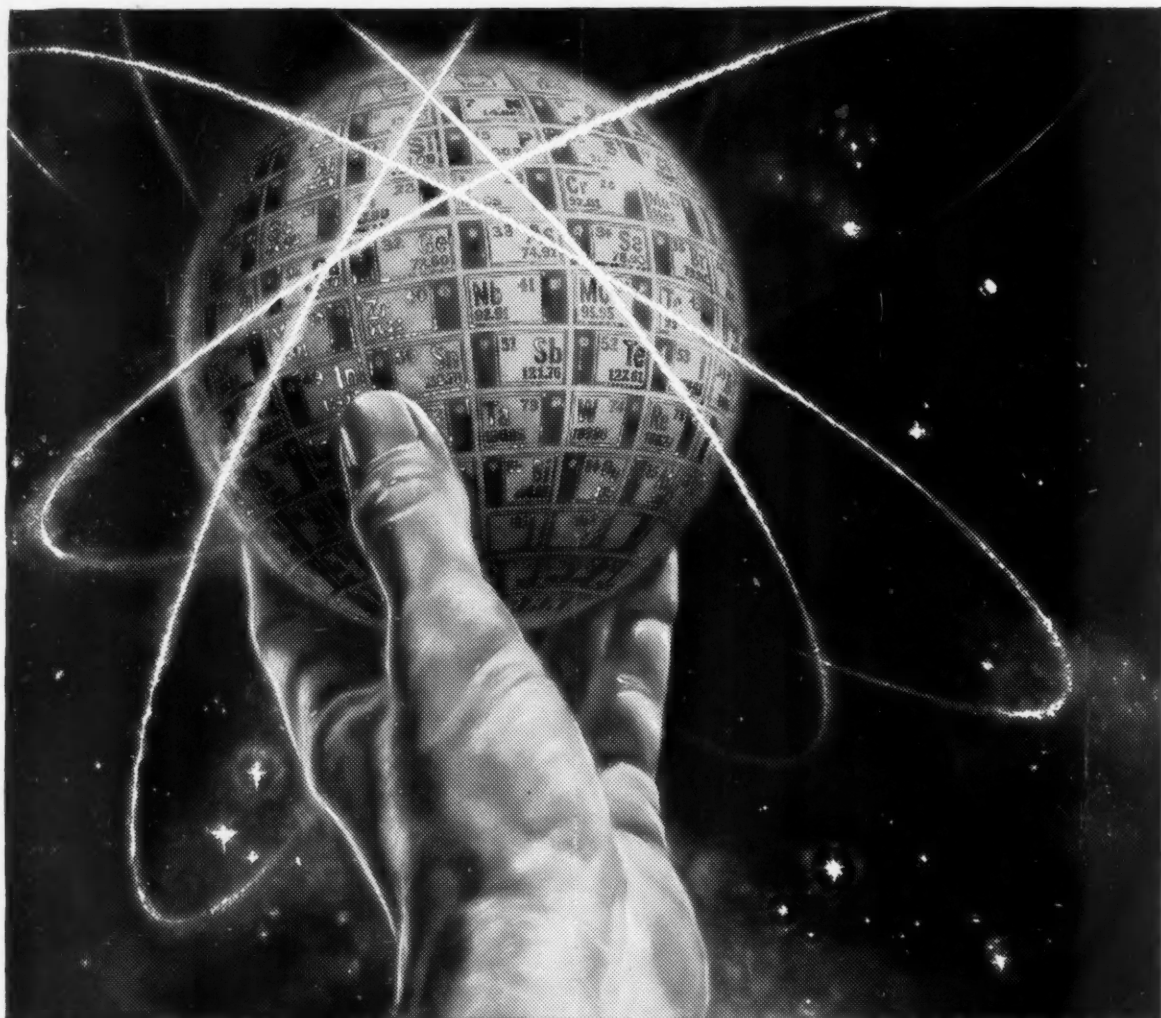
★ Contrasting Prospects for Individual MEAT PACKERS

By RAYMOND E. CHRISTOPHER

★ THE WORLD CURRENCY OUTLOOK FOR 1961

By JACK BAME





The Periodic Table lists all the known elements of the world we live in . . . more than half of them used by Union Carbide

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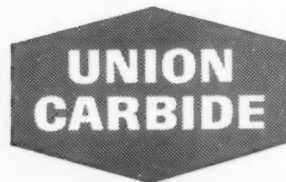
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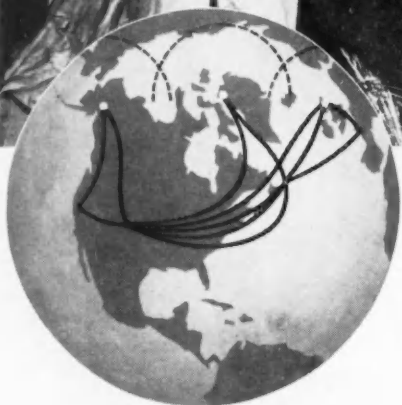
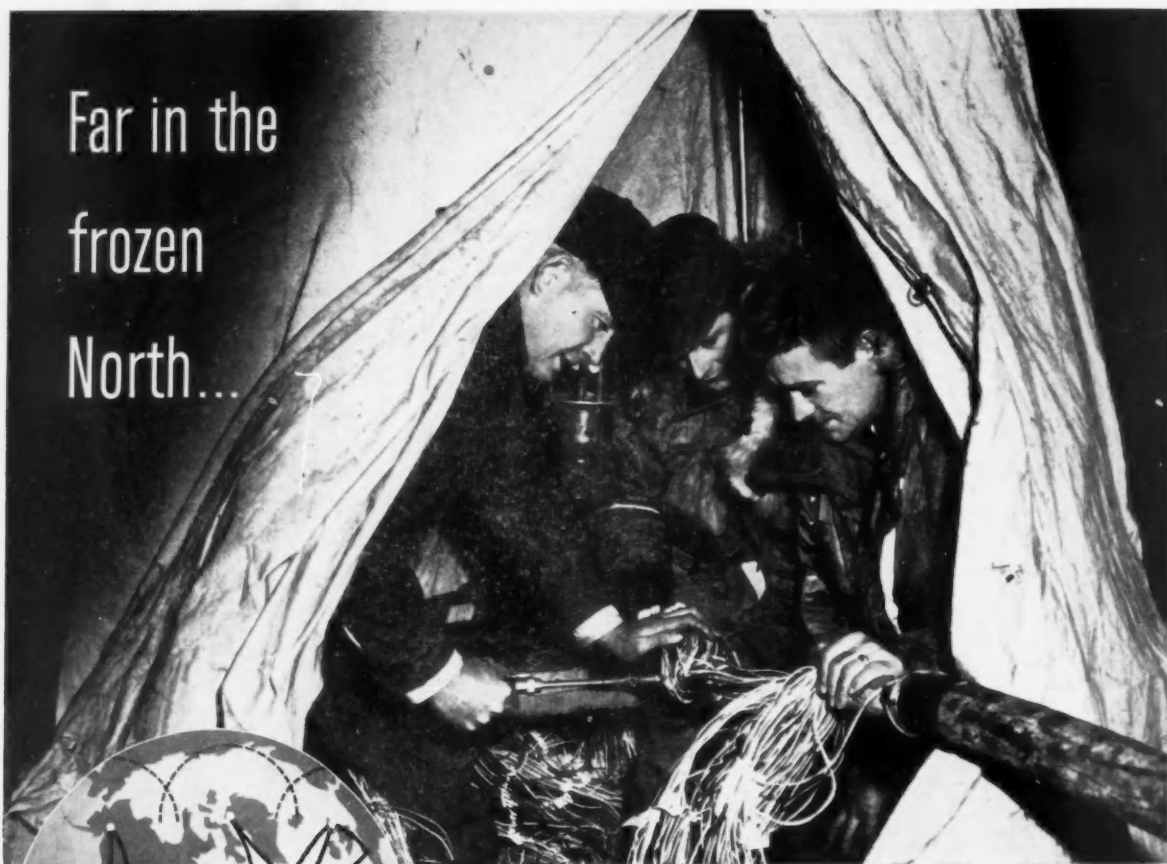
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*Bell Telephone engineers are putting
together the nervous system for BMEWS
...Ballistic Missile Early Warning System*

The eyes of the U. S. Air Force BMEWS will be massive, far-seeing radars in Alaska, Greenland and Great Britain. The brain is at the Continental Air Defense Center in Colorado Springs. Between eyes and brain there will be a vast network to provide instantaneous, highly reliable communications in the event of enemy missile attack.

The Bell System's manufacturing and supply unit, Western Electric, heads a team of 30 private firms and government agencies from three countries which is constructing this communications system.

Work is going ahead at full speed, right on schedule. All of the arts of long distance communi-

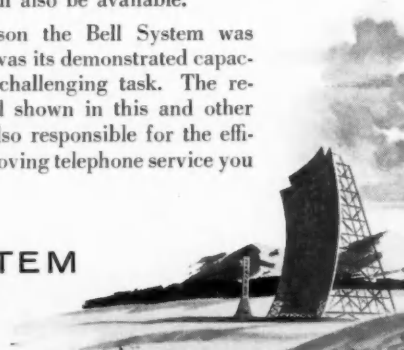
cations are being used to conquer the stern, hard-bitten terrain of BMEWS—line-of-sight and over-the-horizon radio, cables on land and under water.

Several forms of transmission are being employed. Newly designed high-speed data channels will feed information to computers. Voice and teletypewriter links will also be available.

One important reason the Bell System was given this assignment was its demonstrated capacity to handle such a challenging task. The resourcefulness and skill shown in this and other defense projects are also responsible for the efficient, continually improving telephone service you enjoy every day.



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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, Editor-Publisher



The Trend of Events

WELCOME TO THE NEW ADMINISTRATION! We will breathe a sigh of relief when it gets down to work, for the interim between the November 8th election and the long wait to Inauguration Day, has left us in a state of suspended animation. It is too bad at a time of decision in our history, that we should have to function with a lame duck government, for despite anything that Washington could do at home and abroad, everybody is marking time, waiting to learn what the new President is likely to do.

I, for one, confess that I am somewhat impatient with the idea that an outgoing President, a few days before his departure, should deliver the State of the Union, economic and budget messages that deal with matters he will not have to administer, and with appropriations that are likely to be revised. It is too bad that this should have occurred at such a significant time when we are under pressure, both at home and abroad, in situations that call for decisions and policies that will be binding on our government.

Clearly, our system is outmoded and out of joint with the times in an age where communication and transportation have made the world our neighbors. It is altogether regrettable that our political processes are still in the horse-and-buggy stage when in all other areas we have streaked into the jet age. This situation has interfered with sound planning and has given the

Communists' an interlude for further destructive action, of which Cuba is a case in point. For here, although President Eisenhower has taken a thoroughly justified step in severing diplomatic relations with the Castro regime, it has not been accepted as final, and Cuba has already suggested that the new President may repudiate the action—a suggestion that is being supported by Moscow.

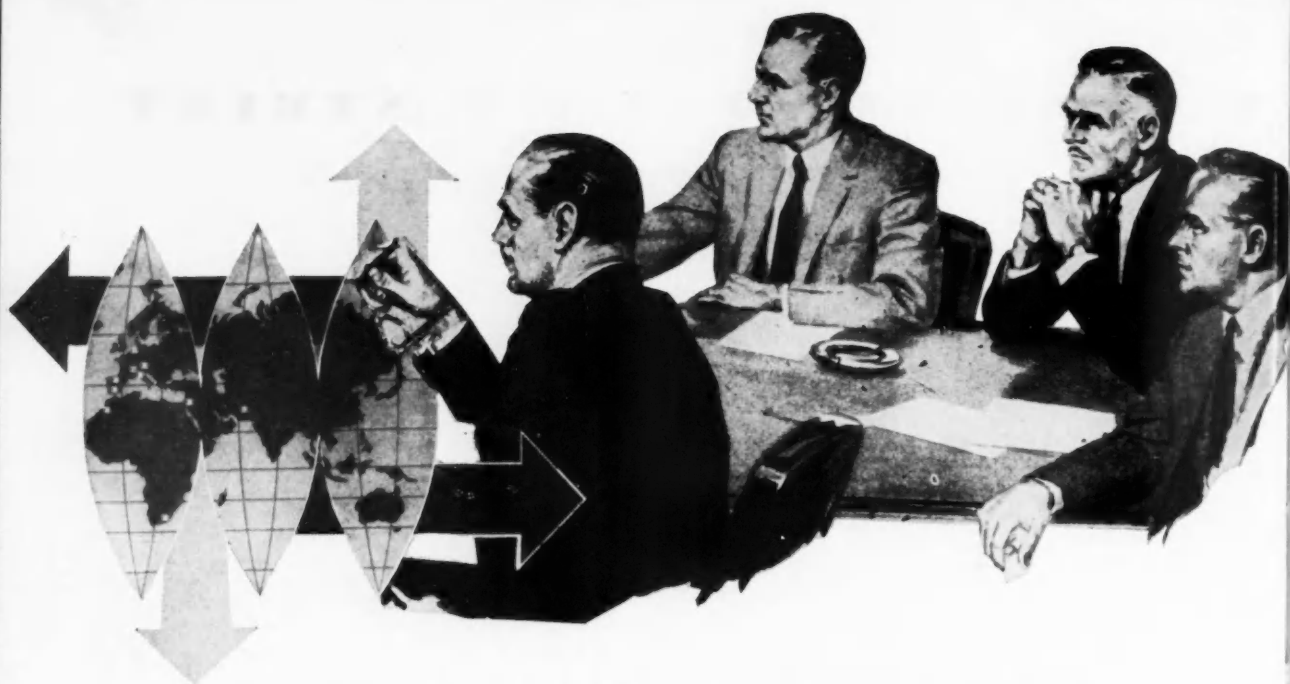
In the same way, the outgoing President is being tarred with aggression in Laos, despite evidence to the contrary, leaving another area of sensitivity that President Kennedy will have to deal with.

Judging from the press, the East is in a high state of nerves, wondering what the new administration is likely to do in relation to American aid and political support. And India, where it had been expected that Chester Bowles would be Secretary of State, is becoming restive concerning the degree to which the United States will follow through on support for her five-year plan and for one reason or another, the leaders of various nations have been

using the stagnant interval of transition of power to set up ways and means for making new demands on the United States that may will come to plague President Kennedy in his early days in office. And no wonder—because the variety of philosophies of the appointees in the State Department are so great it is difficult to know whose ideas are going to prevail.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL and INVESTMENT COUNSELLORS: 1907 — "Our 54th Year of Service" — 1961



WITH THE EDITORS

THE open season for forecasting is once more upon us. But again we refuse to join the crystal ball coterie. For, as we see it, the year ahead will be an adventurous one. And how we fare in 1961 will depend in a large measure on what we do about the fundamental economic and political issues facing us abroad—at home—and as individuals.

Although there are clear indications that we must reinvigorate our economy, there are no signs yet that we have lost our basic vitality and are about to tumble into deep recession. **As we have seen, despite the gradual slow-down we have been experiencing the past two years, and the unevenness in the prosperity in various areas around the country, our economy has held up amazingly well.**

The main reason of course is that we have—almost unnoticed—succeeded in spreading both income and wealth over a very broad stratum of citizenry, and have thus assured a level of economic activity which, even at its low point, is far above anything the world has ever seen. No longer is the category of necessities limited to food, clothing and shelter. As a commonplace, it also includes cars, home appliances and trivia of one kind or another that would be luxuries anywhere else in the world. Our story in this issue, "Resilient Cushion Under Our Economy—How Far Can We Go—Before We Go Too Far?," deals with this situation fully.

Only if we deviate from our course under free enterprise may we lose our way and the means for maintaining the high standard of living in these United States.

Looking to 1961

As it appears now, 1961, to paraphrase Winston Churchill, "is a riddle wrapped in a mystery inside an enigma," because much will depend upon decisions which have not yet been made, and the

philosophy and the steps to be taken by the new administration.

To keep our ship of state on an even keel we must have the fortitude and enough faith in the American system of free enterprise to allow the business situation to right itself without taking recourse to measures which can produce unhealthy distortions dangerous to our basic vitality.

We cannot permit economic theoreticians without active experience in the world of trade and financial management, nor those lusting for political power, to tell us that a welfare state is the answer to our problems.

Under their pressure, let's always remember we have proven that individual initiative under free enterprise has outstripped every other system, including that of the Soviet Union—where, after 40 years, the great majority of the people are practically still living on a subsistence level, in contrast to the booming free enterprise economy of West Germany, which has produced a very high standard of living for its people in less than ten years.

To hear some of the critics rant and enlarge about any weakness in our economy, would make one believe this country is close to bankruptcy, instead of being the possessor of enormous assets, wealth and brain power more than sufficient to enable us to solve our problems soundly as well as realistically. Many of our problems are more psychological than real.

Setting Our House In Order...

► Of first importance toward a solution of our current problems is the overriding necessity for preventing further deterioration in the value of the dollar. The psychological as well as the actual implications in the outflow of gold have reached a point where it can greatly damage our domestic and

world position. Thus a sound monetary policy should serve as a background for all our planning, and be carried out in collaboration with responsible industry, finance and labor.

► Of equal importance is the overhauling of our tax structure—to eliminate inequities—to close loopholes—to find ways and means which would cut taxes where they need to be cut—and to raise justified revenues that are now slipping through the Treasury's fingers.

(A comparison of the deficits under Averell Harriman and the surplus under the administration of Governor Rockefeller in New York State, as a result of his tax reform program, tells us clearly **why tax reform is a must for the new Congress.**)

► Of equal importance is the unemployment situation, which, if left to fester, could infect all of us with pessimism and defeatism. And, in fact, it is reported that some states are already running low in their reserves for paying unemployment compensation.

Where to Begin to Rebuild

At least a good start could be made by carefully allocated spending where it will be most helpful to depressed areas, and contribute such fundamental improvements as urban rehabilitation, reclamation of waste lands and development of adequate fresh water supplies, so badly needed in many communities where the water shortage has been responsible for retarding and slowing down industrial activity and discouraging new projects.

► In this area, a complete revamping of our transportation system, now long overdue, would accomplish wonders. The strategic network provided by the carriers is now being permitted to deteriorate to a point that is producing economic stagnation in many parts of the country.

No consideration has been given to the importance of the railroads for movement of troops and evacuation of citizens should it become necessary in this dangerous world. Nor has much thought been given to the economic cost that loss of commuter and freight service has imposed upon various communities. Already it is responsible for the decay in many areas, where the young people are leaving what were previously prosperous manufacturing centers to seek a new life elsewhere.

► Breathing new life into the railroads through tax adjustment would stimulate economic activity at a smaller cost than would the razzle-dazzle panaceas that are being suggested, for it would be a fundamental factor in revitalizing regional industrial activity.

(We wonder how many realize to what extent airlines are subsidized—that the network of fine roads which extend from one end of the country to the other, for which we the citizens are taxed, is actually a form of subsidy for the automobile and truck industry. That it is this "subsidy" which has enabled the companies to sell more cars—and to keep them rolling.)

A two-year study of transportation, completed by a Senate task force has just been made available, and merits careful scrutiny and consideration by Congress and all responsible citizens.

There Is Much To Be Done

A new administration, bogged down with a mil-

lion matters calling for immediate attention, may be pressured into using stop-gap palliatives should the recession deepen in the months ahead. Already the new educational plan and the construction program presented to the President call for sums in astronomical figures. And we can expect more of the same from every opportunist seeing a chance to make money and gain power.

The Foreign Dilemma

I wouldn't be in the President's boots for anything. For in 1961, on top of all the domestic pressures and the traditional shenanigans, he will be facing a challenge by the Communists in various parts of the world. We will have to know where we stand, particularly in relation to Red China. **For, while the Russians are likely to continue to harass us through cold-war tactics, they are not likely to risk a hot war, which would destroy their heavy industrial complex and, with it, their leadership in the Communist world.**

But the Red Chinese have nothing to lose, except 300 million people who seem unimportant to Mao Tse Tung, for there is little hope of solving their problems, let alone feeding them. And the future is so bleak that war may look like the only way toward acquiring the sorely-needed territorial, agricultural and industrial wherewithal that now seem unattainable, even should they continue to struggle toward this goal for years to come.

The question is — how long will Russia be able to hold them in check? Or is she already using them to do the fighting while she works for a disarmament program to enable her to build a stronger labor force in an expanding economy?

A Straight Road Through Common Sense

It must be clear that a good fight on the economic front will give us the military and psychological strength to assure ourselves that China or anyone else will not dare to risk a war. The year ahead, therefore, requires sound and objective thinking—realistic organization and action—with sufficient flexibility to meet any challenge we face and anything that cannot be foreseen.

1961 will in a large measure depend on the attitude and behavior of the American people—their recognition of the fact that liberty of action means responsibility—not license. And if it brings the realization that what is best for the country is best for us individually, native common sense will prevail and 1961 will be a year of rebuilding.

It is to be expected that we will experience a greater deepening of the let-down which is normal at this season of the year, from January until the middle of March, when the sap begins to come running back into the trees once more, revitalizing nature and renewing the energies of man.

In the meantime, in anticipation, retail bargain sales are going apace to get rid of inventories, buying is strong and merchants are busy seeking fresh stocks to meet the demands of spring. We have the means, the power and the energy to make 1961 the kind of year we want it to be.

Our forecast of the stock market is contained in our feature "New Forces Shaping 1961's Stock Market" which you will find to be most interesting, realistic and practical—and will give you a sound basis for a prudent investment policy for the year ahead.

C. G. Wyckoff, Editor-Publisher

New Forces Shaping 1961 Markets

Off only about 9% from the early 1960 all-time high, the industrial average is making optimistic allowance for a broad revival in corporate profits in later 1961 and 1962, as well as for considerable inflation. Both assumptions are questionable, even though moderate business improvement is ahead. Uncertainties at Washington are unresolved, foreign uncertainties increasing. A realistic, carefully discriminating investment policy is advised.

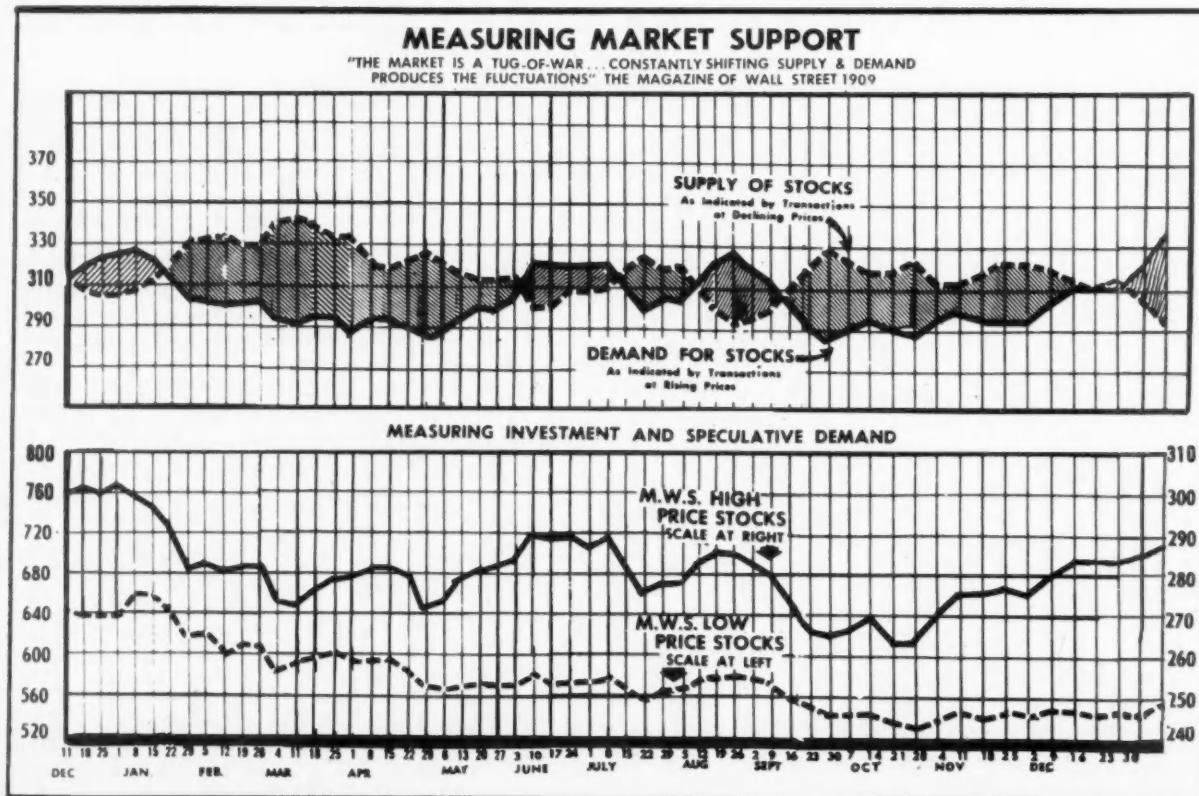
By A. T. MILLER

IN no year of the last five has the industrial average had a net gain exceeding 16.4% or a net decline exceeding 12.7% — excepting 1958, when it rose about 34% from a medium-depressed level. Since the market went into 1961 at a relatively high level, both absolutely and with respect to price-earnings ratios, a major advance would seem to require solidly founded expectation that (1) we will be moving before the end of the year into a dynamic rise in business activity and company earnings; and/or (2) a strong inflation.

However, it appears more likely that the recovery will be about as mild as the recession, that improvement in the annual rate of business profits by the

year end will be disappointingly restricted, and that commodity supply-demand factors will preclude a significant general price rise, if any, despite the prospect of sizable Federal deficit spending ahead. If this view is correct, it argues for an irregular, selective 1961 market, perhaps within a range of overall fluctuation not greatly different from that seen in 1960, since it would take little rise above the January, 1960, high point for industrial equities to put price-earnings ratios at very extreme, if not fantastic, levels.

Our problem is not just an inventory-adjustment and capital-goods recession. If that were the whole story, as it was in the first of the postwar reces-

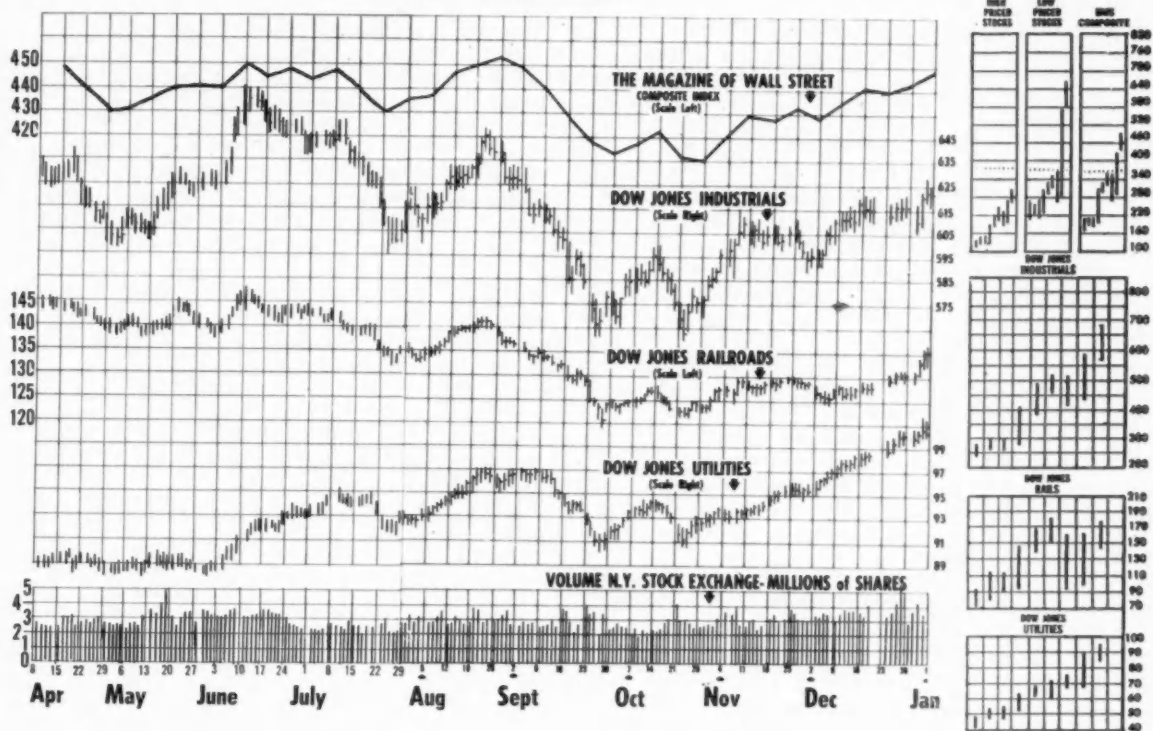


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TREND INDICATORS



sions, revival would be not only assured but dynamic. The key fact is that, with the early postwar shortages in goods and facilities long since made up, the business expansion cycles have become progressively more sluggish. To illustrate: the production index peak in 1953 was 30% above that of 1948, the 1957 cyclical top 13.2% that of 1953, the January, 1960, peak only 8.4% above the high point of 1957.

The New Competitive Situation

● Thus, we have moved from temporary war-born shortages to a more mature economy of surpluses — surpluses in materials, finished goods, industrial capacity and manpower. Initiated with our help, there have been great postwar industrial expansions in Germany, Japan, France, Italy and Britain, making them more formidable competitors in world trade. Regimented industrial growth in Russia, and to a lesser extent in China, permits increasing use of barter trade and give-aways as instruments of aggressive Communist expansion and infiltration.

● Meanwhile, as a result of the unsound wage policies of the labor unions, our production costs have risen, and price boosts have put limits on the gain in consumer buying power; but have not been enough to prevent a progressive squeeze on corporate profit margins. Thus, business concerns are confronted with more severe competitive conditions in domestic and foreign markets than ever before. Moreover, the economic recovery ahead will not change this.

● There have been structural changes in the economy making for much greater stability than formerly, but stability is at some expense to dynamism and to speculative-investment potentials on a cyclical basis. Increased stability is partly due to unemployment compensation, old-age security payments, other Welfare State measures, and to the growth of private and governmental employee pension systems. It is also importantly due to the steadily increasing proportion of consumer outlays for services, as compared with goods.

The Growing Service Economy

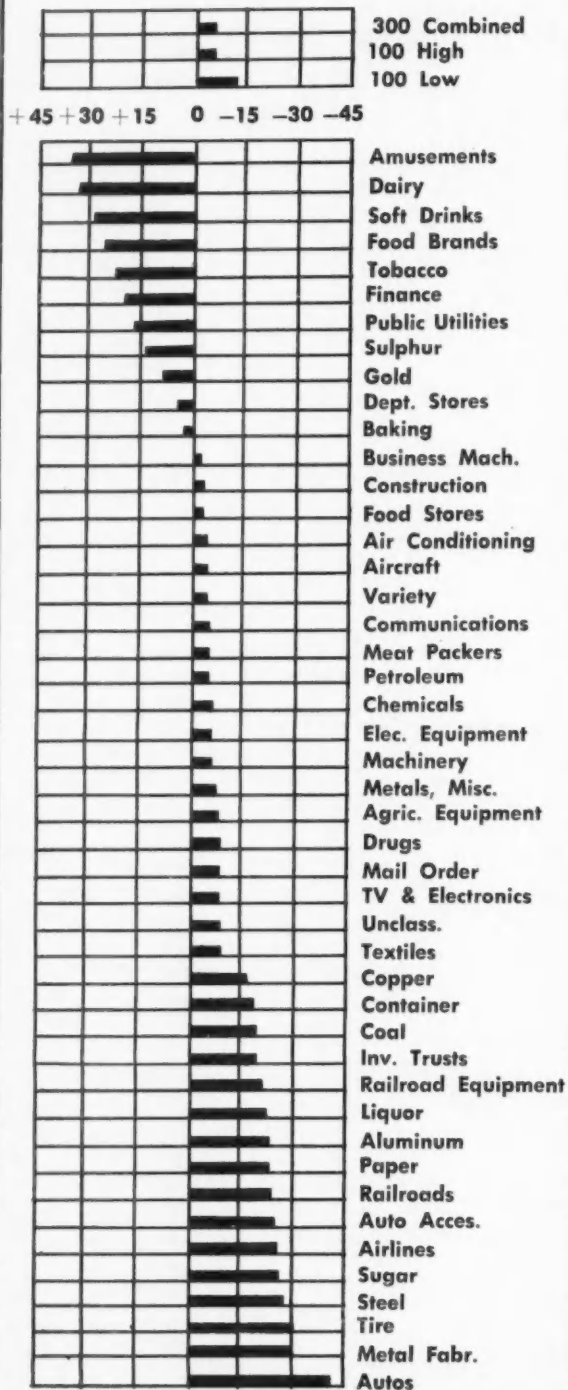
► Ten years ago consumer outlays for medical care, education of children, home maintenance, travel, rents and other services approximated 31% of disposable income, those for soft goods nearly 48% and those for durable goods about 14.6%, leaving 4.5% for savings. In the third quarter of last year, latest available figures, services took about 37% of disposable income, durable goods less than 12% and soft goods 42.7%, leaving 8.2% for savings. Full-year figures for 1960 will not change this showing by much.

► Actual consumer spending for automobiles, appliances and other durable goods in the first nine months of last year were at an annual rate only 10.6% higher than five years earlier in 1955, against a rise for the period of 26.6% in gross national product. There is nothing temporary about this. Services, such as education of the increased number of children per family, medical needs, travel

MARKET ACTION OF STOCK GROUPS

Percentage Changes

Dec. 31, 1959 to Dec. 30, 1960



and others, plus the essentials of food and clothing, will continue to hold down outlays for durable goods.

► This change in consumer spending habits and tastes explains the growing shift to more economical cars, including the compact models, and to less expensive appliances. In time it will put compelling pressure on builders in a lagging housing market to produce more economical homes.

Gain For Some

The change favors some lines of business mainly in the service fields, but is at some relative expense to dollar sales in the automotive, appliance, steel and various other manufacturing industries which, on a combined basis, have important representation in listed common stocks and in many over-the-counter issues.

► From the point of view of the "liberals", including President-elect Kennedy and most of his advisors, the shortages and the needs for "investment" are now to a great extent in the public sector — in urban renewal, schools, highways, reclamation projects and other Welfare State programs. In considerable measure, this is undeniably so.

But so-called public investment is quite different from private investment. If too much of it is "on the cuff", the ultimate result is inflationary. If it is paid for out of taxes, the smaller becomes the already decreased portion of national income left for the private sector. In broad terms, the bigger is the role of Government in the economy, the less bright is the over-all outlook for private profits.

The Lag In Profits

The market is in the novel position of optimistically capitalizing growth of corporate earnings which is not there — and hasn't been for some time.

► The net gain in total corporate profits from 1950 to 1955 was less than 1%, that from 1955 to 1959 about 3.5%. Here are the totals in billions: 1950 \$22.8, 1955 \$23.0, 1959 \$23.8. It is estimated around \$22.5 billion this year. Manufacturing profits averaged about 6.6% of sales in 1947-1950, but less than 5% in 1956-1959; and there was more shrinkage in 1960.

Earnings "per share" on the Dow industrial average were \$30.70 in 1950, \$35.78 in 1955, \$36.08 (peak figure) in 1957, \$34.31 in 1959, around \$32 in 1960 and at a recent annual rate around \$30.

► A reasonable guess for 1961 might be around \$28-\$29, in line with recession profits in 1958 and 1954. If so, the average is priced at 21-22 times 1961 earnings and 17 times peak 1957 earnings which may or may not be equalled at some indefinite future time.

These are excessive valuations as judged by past standards, but are rationalized as being due to continuous growth of institutional demand for "good" stocks, with demand tending to exceed supply. This poses two questions: Are there not limits of prudence for institutional investors who are handling other people's money, just as there are for individual investors? How much further can the limits be stretched?

Pension funds and various other trusts are conservative in the portion of funds allotted to stocks, in stock selections and ideas of stock values. The

SENSIBLE RULES FOR SOUND INVESTMENT

1. Do not try to "play the market." Avoid undue preoccupation with rumors and tips on possible "hot stocks." In risk of error, tax factors and transaction costs, the odds are too greatly against in-an-out trading operations. The best policy for building capital is to hold long-term positions in stocks of strong, growing companies.
2. View uncommon market popularity vogues with prudent reserve. They come and go, bringing profits in the coming stage, losses in the fading-out stage. Rarely can phenomenally high price-earnings ratios be maintained. As one recent example, note the wide decline from 1960 highs by the science-electronic stocks. There have been numerous other examples in market history.
3. Avoid the common mistake of assuming too much speculative risk in inferior low-priced stocks and in cyclical stocks generally, especially at advanced market levels. The average person cannot properly risk putting more than a moderate portion, if any, of total funds in speculative ventures. In no event should it be done without prudent regard for family obligations and the consequences of possible losses. Before starting on accumulation of common stocks, most people should put first emphasis on life insurance, home ownership, safety-first holdings of some fixed-income securities and maintenance of ample liquid savings for family emergencies.
4. It is not good policy to reach too high for current income return. Varying stock yields in most cases are fairly well in line with differences in risks and potentials for appreciation. Relatively high yields are found generally among speculative-cyclical stocks without dividend continuity and static income stocks with restricted growth of earnings and dividends. In the present market, few stock yielding over 5% qualify for conservative investment. If you want income and even moderate appreciation, current yields will be average or below average.
5. Successful investment requires a sensible degree of patience. Good stocks will always lag at times in a rising market. It will pay to stick with them if careful reappraisal of all pertinent factors indicates above-average prospects over a reasonably extended period of time. Some people get scared by any interim market sell-off and do foolish selling, regardless of quality. There have been few times, and none in this generation, when a "sell-everything" policy was advisable, considering the wide margin for error confronting investors in trying to judge timing of market tops and bottoms.
6. On the other hand, a common mistake is to stay "married" to a stock which has worked out badly because of a basic change for the worse in its position and prospects. We all make some mistakes in selection. Refusal to correct them and write off the loss can be costly and in time become more so. It is bad investment policy to be too quick to take profits, too slow to take losses.
7. Avoid risking too much money in any one industry or company. Adequate diversification of holdings is essential to spread the risks. This does not require dispersal of funds among any great number of equities. A few stocks of broadly-based companies can suffice.

investment companies are less so. They stay heavily committed to stocks — but not the same stocks. They do much switching around. If you eliminate the eight utilities from the list of "The Favorite Fifty" — the 50 stocks most largely held by investment companies, you note that average 1960 performance of the 42 industrials was closely in line with that of any broad general index of industrials, with 28 of the 42 issues down or unchanged on the year. **There is some opinion in the business that the maximum rate of growth in net money flow to mutual funds may have been put behind some time ago.**

Stock Group Picture

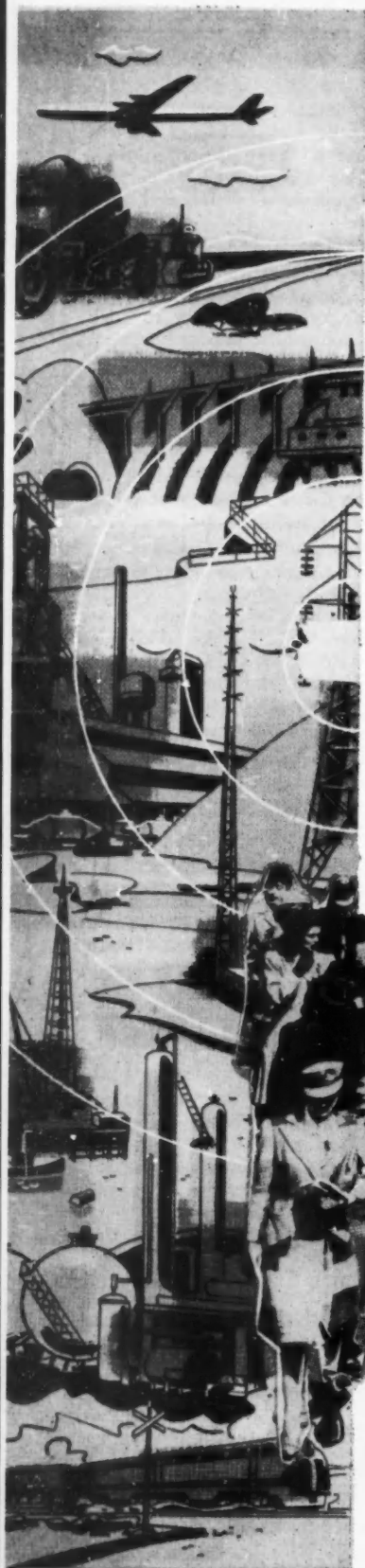
Stock group divergencies in 1960 are charted on the preceding page. ► In broad terms, it was a good year mainly for conservative income stocks. Their prospects are relatively less promising for 1961, those of selected cyclical issues, more so, based on the expected business pattern.

At this writing the industrial average, partly due to the technical fluke of a sharp January 4 spurt, has made up over 46% of its entire 1960 fall of some 119 points from high to low, remaining about 20 points under last August's rally level. Whether the latter can be reached, for about a two-thirds recovery, is conjectural. A sell-off seems due by late January or February.

► Of course, all key business indicators still point downward, mostly at an accelerating rate. ● Stocks of new cars in dealers' hands are decidedly excessive, so production is being cut back. It might be at the lowest first-quarter level since 1954. ● All that can be said about steel is that the operating rate was so low at the start of the year that it is hard to see how things could get worse. ● The latest report shows further curtailment in manufacturers' sales, new orders and inventories. ● The backlog of unfilled orders is under the poorest 1957-1958 recession level and the lowest since the present revised series was begun some years ago. ● Finally, there is growing threat of some 1961 recession in the economies of Western Europe, which would cut our recent high volume of merchandise exports.

In Conclusion

We are still in the "talk" stage about new Federal policies. The newspapers are replete with "task force" proposals on economic measures, taxes, welfare programs, etc. But it is not yet clear what Kennedy may actually do in trying to carry on "New Frontier" spending while having to cope with the foreign crisis of confidence in the dollar and the gold drain. Some "wait-and-see" is in order. We continue to suggest a considerable degree of caution, as well as careful selectivity, in portfolio management. — Monday, January 9.



THE RESILIENT CUSHION UNDER OUR ECONOMY

—How far can we go —
before we go too far?

By HOWARD NICHOLSON

- How high personal income has bulwarked our economy — phenomenal growth since 1936 — role of “built-in stabilizers”
- The risks in our complex economy — abuses of safeguards — role of credit and savings — taxes — where welfare costs handicap competitive position
- How much further can we go without unbalancing our position?

THE great seal of the United States, imprinted on every dollar bill, bears the significant legend, “Novus Ordo Seclorum”—a New Order of the Ages. This referred, when adopted, to the bold initiation in a world of monarchies and aristocracy of a republican government of limited power on this continent. But today this legend could be regarded as even more closely descriptive of the economic system we have created, which contrasts even more sharply with conditions in all previous eras and in most other countries. Our wide distribution of personal income, although now so familiar as to be taken for granted, should be recognized as a remarkable phenomenon which reflects enormous accomplishments in the past, and assures a much more resilient economy in the future.

The Income Pyramid Topped

These generalized remarks can be illustrated concretely. Throughout most of history it has been taken for granted that the overwhelming mass of the population would consist of the very poor. Resting upon this broad base was a small middle class, yeomanry or bourgeoisie, and above them a tiny minority of the privileged. This was undoubtedly the picture of society in ancient Babylon, and it had not changed materially by the time of the American Civil War, three thousand years later. In fact, this structure still persists in most countries of the

modern world today.

And yet, in the United States, this "normal" pattern has been broken, the broadly based income pyramid has been toppled. Literally more of our population are "well-to-do" or in "middle income brackets" than are poor (although any such terms as these are necessarily arbitrary).

As recently as 1935 nearly 80% of all American families and unattached individuals had annual incomes of less than \$2,000; nearly half of them (43.5%) received less than \$1,000. Another 13% had slightly larger incomes, up to \$3,000. At the peak of the pyramid the "wealthy," with incomes in excess of \$3,000, comprised less than 10% of total family units.

What is the situation today? Well, on the basis of 1958 returns, the most recent date available, only 14% of "families and unattached individuals"—and most of them must have been in the latter category—had incomes under \$2,000. Another 10% fell in the \$2,000-\$3,000 bracket. But above this narrow base the bands widen. The \$3,000-\$4,000, \$4,000-\$5,000, and \$5,000-\$6,000 brackets were of nearly uniform size, at close to 12% each. A somewhat larger proportion, 14.1%, enjoyed income between \$6,000 and \$7,500, and the \$7,500-\$10,000 group was only slightly smaller.

To be sure, 1935 was a depression year. \$2,000 then had the purchasing power of \$4,000 today. This adjustment does reduce the sharpness of the contrast just pointed out, but leaves unchanged the fact that the larger income brackets—in terms of "membership"—are no longer the lowest ones. Further, whereas 78% of all families had incomes of less than \$2,000 in 1935, only 36% fell below the \$4,000 level in 1958, and the percentage is smaller today.

What This Means

Statistics are apt to become tiresome. Translated into everyday terms, the foregoing data means that the great bulk of the American population enjoys incomes and purchasing power high above that which existed in 1935. A wisecrack has it that no revolution in this country is likely, since the fellows going downtown to join the mobs couldn't find places to park their cars.

To be sure, we have all changed our standards with the general prosperity. \$3,000, even \$5,000, a year no longer looks like a generous family income. The automobile, the TV, electric illumination, indoor plumbing and other utilities have all lost their erstwhile status as luxuries and are now regarded as basic necessities. Nevertheless, a broader perspective should be maintained, or at least a recognition of our good fortune. These possessions, which are as yet unavailable to 95% of the world's population, have given all of us a standard of living higher than that enjoyed by kings and princes in all previous eras. We have, indeed, achieved a New

Order of the Centuries.

Our More Complex Economy Carries Risks

But this elevated standard of living, based on the universal demand for "necessitous luxuries," does carry related risks. Important among these are the cyclical fluctuations which are unavoidably associated with the more complex economic structure.

In simple agrarian or handicraft societies there were no fluctuations—other than those introduced by drought, disease, plagues of locusts, and the like. Otherwise, the economy showed little variation, for generally food and shelter were always insufficient. Problems of surpluses, inventory fluctuation, excess savings, maladjustment between consumers' and producers' goods, and slow demand simply did not exist. To paraphrase a current term, it was a permanent condition of low-level stagnation.

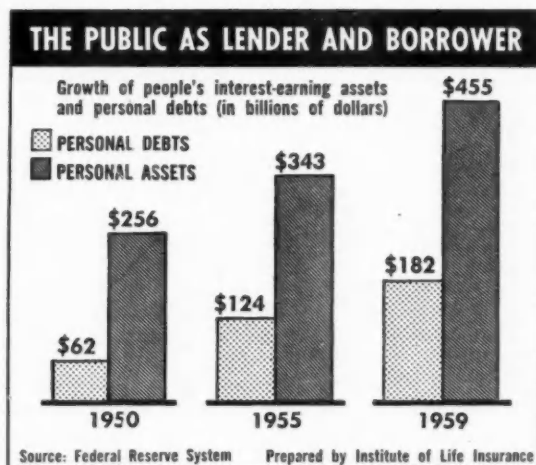
While there were some attractive elements in the "good old days," none of us would want to return to that economic climate, even though today we are caught up in an era of conspicuous consumption and rapid obsolescence. More than the abundance in our present society, it is the variety, the expectation that still better products will appear, that provides the essential spark. Thus, it is necessary that new "luxuries"—a second car, air-conditioning, pocket telephones, facsimile transmission, and so on, without limit—must constantly be discovered and then downgraded to necessities, to support this type of economy. But inherent in this superabundance are the inevitable periodic adjustments that our economy experiences.

Recognizing this does not mean that all economic fluctuations need to be endured passively. At best they are undesirable; at worst they can become dangerous.

Have We Reached That Point Now?

As a result of the income gains that have been commented upon, most families now have considerable discretionary purchasing power, that they can exercise or withhold, as they elect. Any mass tendency in spending habits will, of course, have a far-reaching effect upon the economy. The propensity to spend is imitative, and the example of our neighbors may, therefore, be as important as actual "need" in influencing us to buy a new tape recorder or outdoor grill.

But similarly, the decision to withhold spending can also be contagious, dangerously so under extreme conditions. Thus, even a mild recession can sometimes cause a more than proportionate reduction in spending, as the thought of an unemployed neighbor is likely to suggest more rigid economy to his acquaintances. A general lack of security, the threat of severe distress, may cause penny-pinching



all around and set off the familiar snowballing effect.

Role of the Built-in Stabilizer

To prevent such conditions our high level of personal earned income has been reinforced by various supplementary payments, such as unemployment compensation, social security, rather liberal welfare payments and company pensions. Most of these schemes would be, of course, unacceptable to an old *laissez-faire* economist, and many of them are questionable in some of their details. But it is hardly to be doubted that they have, collectively, worked well. No longer does the ordinary wage earner, thinking of possible unemployment, or illness or old age, have to cut his purchases to the bone; he may still face financial stringency, but he can dismiss any fear of starvation or eviction from his home. As a result, he can still buy golf clubs and electric appliances, as well as food and shelter. By our policy of "creeping socialism" some of the risks in modern business society have been diminished. The problem is: How far do we go before we go too far?

Much will depend on whether we retain the safeguards or permit ourselves to be bluffed into the use of dangerous expediences to meet emergencies, real or manufactured.

Abuse of Safeguards

There is, however, a danger in the built-in stabilizers—the tendency to push them too far. They were designed to serve an important but limited purpose. Their conversion into a major source of support for a large part of the populace will both add enormously to costs of production and encourage idleness.

Obviously, the most judicious balance of welfare payments and fringe benefits, the point at which they became injurious rather than constructive, is a difficult matter for determination, and opinions on the subject are likely to clash violently. Already, some unrealistic conservatives would describe most of the unemployed as loafers who prefer not to work; an extremist on the other side visualizes them all as skilled and willing workmen victimized by the recession. In reality it is clear that the ranks of the unemployed do include many incompetents, confirmed transients and housewives or semi-retired persons who do not really want to work, but will list themselves as unemployed as long as some benefits can be derived from that status. (Actually, the Department of Labor's periodic reports on unemployment, although stated with a seeming precision, are based on a rather questionable survey of a very limited population segment).

One disturbing practice is the payment of unemployment benefits to strikers. In the recent Pennsylvania Railroad strike, for example, the protesting employees received, between union contributions and public benefits, 75% or 80% of their normal wages. Thus, the economic incentive for their agreement to a prompt, reasonable settlement was largely removed, while the general public was obliged, in effect, to finance a strike against itself.

Many other such examples could be cited. Besides outright abuses, many borderline schemes for drawing larger public benefits have been concocted, and much evidence suggests that one element of the population is subsisting primarily on various welfare schemes.

Welfare Costs Handicap Competitive Position

Even legitimate benefits, efficiently administered, represent a heavy burden upon the productive segment of the population. Social Security, which is likely soon to be supplemented by a liberal program of medical aid, has never been established on a self-sustaining basis and represented, at first, no more than a slightly disguised tax upon the young and employed for the benefit of the elderly.

This is a responsibility which this country is apparently willing to accept, although it is not inconceivable that if the structure of the population were to change radically at some future date, by a sharp increase in the proportion of the elderly, there might be a concerted revolt leading to a rejection of this responsibility by the younger age groups.

Again, the minimum wage is likely to be raised to \$1.25 in the early future; at least, this was a major Democratic campaign plank. Naturally, this step will be politically popular. Its actual effects are extremely doubtful. Perhaps a business which cannot afford to pay this much should be driven out of existence, but this is probably not the objective which the proponents of the law are seeking.

But wages are no longer solely a domestic matter. In fact, our industry is engaged in increasingly intense competition with foreign organizations, not only for markets in third countries but even for business here at home. This situation has been emphasized so frequently in this magazine that it is superfluous to point it out again, and yet the implications have not yet been fully grasped by the public at large. Our industry enjoys an efficiency greater than that of most foreign countries, and yet many of them are rapidly catching up with us. Foreign wage rates are increasing, and fringe benefits usually represent a much larger proportion of the total wage than with us, but still they retain a very substantial wage differential. Beyond these advantages many foreign companies have shown an astute appreciation of the American market—witness the invasion of the small European cars, or the nearly total displacement of the American products by foreign markets. The only effective solution of this problem is holding the line on costs—including welfare payments and fringe benefits.

The Role of Credit in Enhancing Purchasing Power

While the high level of family income which has been described, is the key element in our entire economy, various tools are used to translate this into effective purchasing power. One of the most effective sales lubricants is, however, readily available consumer credit, which allows the American wage-earner to enjoy the possession of new appliances and equipment immediately, rather than at some indeterminate future date. Accordingly, credit should be recognized, not merely as a handy sales gimmick for automobile dealers and retail stores or a source of income for finance companies, but as a major reinforcement of the economy. It is probable that consumer credit actually reduces the cost of items purchased, as without it mass markets could never have been developed. Thus, credit is an important ally of high income in raising the horizon of demand.

As of last November consumer credit outstanding reached a new, all-time peak of \$54.6 billion, more

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Distribution of Consumer Units and Family Income by Income Level

Family Personal Income (Before Income Taxes)	Aggregate Family Personal Income								
	1958	1957	1956	1955	1950	1947	1944	1941	1935-36
	Millions of Dollars								
Under \$1,000	8,732	8,440	8,765	9,326	1,943	1,973	2,390	6,964	9,654
\$1,000—\$1,999	13,694	13,437	13,970	14,871	11,333	11,231	12,338	18,529	18,781
2,000—2,999	22,909	23,471	24,966	25,815	20,273	21,176	21,938	22,493	12,222
3,000—3,999	30,953	31,516	32,511	33,021	29,983	30,045	26,960	13,982	5,787
4,000—4,999	34,547	35,044	34,073	34,648	31,533	25,583	20,261	7,237	2,830
5,000—5,999	51,415	49,014	47,023	46,311	25,603	18,957	13,739	6,938	3,612
6,000—7,4999	59,744	56,930	51,886	44,468	25,578	20,812	14,942		
7,500—9,999	53,513	50,566	45,038	36,915	23,364	18,454	11,802	3,201	1,982
10,000—14,999	66,560	63,353	27,993	23,511	18,310	14,300	8,483	1,862	7,786
15,000—24,999			27,993	23,511	11,909	10,286	6,610		
25,000 and over.)			28,444	25,353	17,433	11,781	8,258		
Total	342,067	331,771	314,669	294,239	217,262	184,508	147,721	91,406	62,654

than double its level of \$21.5 billion in 1950. As a matter of fact, the credit total has risen steadily for years, with interruption only during World War II, when high wages and a paucity of hard goods created a climate favorable for reduction of personal loans outstanding.

The consumer credit total most recently reported represented a trifle over 13% of current national income of \$419 billion per year, or just about one and a half month's earnings. This rate of increase does not look disturbing, although the tendency to push credit too far must be resisted.

Can Saving Be Overdone?

The opposite facet of personal credit is personal saving. And, in contrast with the wide variety of influences constantly inviting us to "spend," only a few today are telling us to "save." What is the social role of saving?

Well, obviously substantial savings, a healthy excess of current production over consumption, is vitally necessary in our society. Improvements and new investment can come only from this crucial margin. It is the sad absence of any such source of capital formation that represents the major problem of the backward countries and removes any hope of progress. As conditions stand now they can raise standards, if at all, only with the benefit of outside contributions.

But experience shows clearly that saving can be overdone, and at a certain point becomes a threat rather than an aid to the economy. To be sure, savings are not usually sterilized; they are "put to work," building plant or at least supporting inventory accumulation. Yet they can create an embarrassing imbalance between goods available and demand.

Saving certainly should not be discouraged. It may be pointed out, however, that much involuntary and unrecognized saving already goes on. For example, the typical corporation distributes only two thirds of its earnings as dividends, saving and reinvesting the balance as an agent for the stockholders. Again, the built-in stabilizers which have been described, to the extent that they are soundly conceived rather than merely disguised forms of charity, represent collective savings, a postponement of income to a time of greater necessity in the future. As stated, they play a vital role in

turning remaining income into purchasing power. Their purpose would be defeated if further excessive saving programs were to be widely adopted.

It should be emphasized, in this connection, that it is the *high average family* income that is enjoyed by our general population, rather than the excessive incomes of the very wealthy, that represents the primary support of our productive economy. For one thing, the absolute value, and thus the influence, of middle class collective income is very much larger than that of the "upper brackets." But more particularly, middle class income is diverted very largely into consumption. A relatively larger proportion of the highest incomes is diverted into savings, while the relatively limited demands of the wealthy for luxury products and services can hardly support mass markets and thus undergird the overall economy.

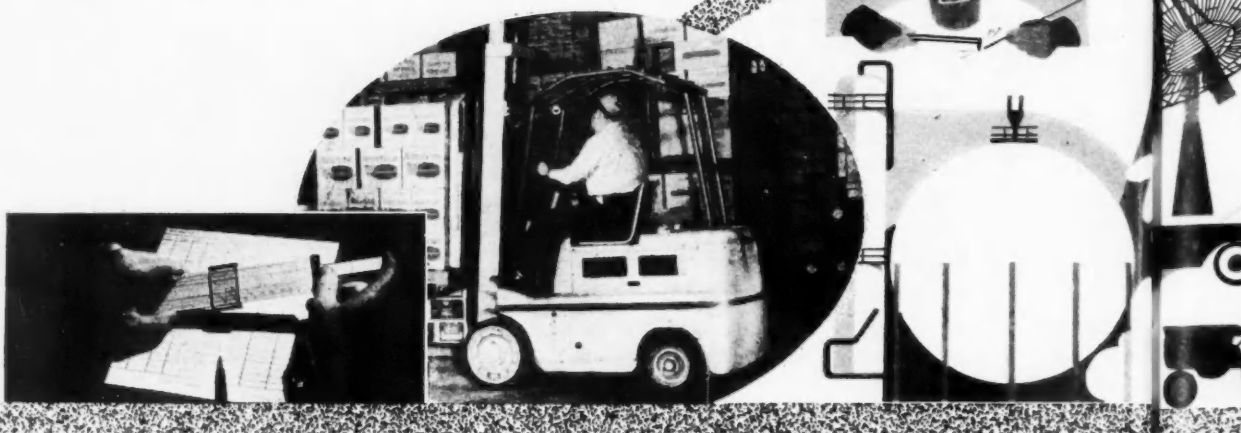
Who Should Do Your Spending?

While the high income now enjoyed by the average family has simply become the accepted standard and is, therefore, almost unappreciated, probably even unrecognized, this phenomenon has not escaped the attention of professors and other theorists, who have time to be more reflective. And it has occurred to some of them that the ordinary family is not an efficient spending unit.

Professor Galbraith, in his widely discussed book, "The Affluent Society," has emphasized, for example, the wasteful or tasteless character of many goods now produced, using the gaudy, tail-finned automobiles as his particular symbol. He and other critics have contrasted unfavorably the amounts spent on such frivolities as liquor, tobacco and funny papers with outlays for education or health. Their recommendation, always implied, sometimes specifically set forth, is that some governmental agency could spend our income more wisely than we can do it ourselves. We should therefore be taxed even more heavily, so that we may be "given" schools and parks and hospitals rather than the cheap gew-gaws we would select for ourselves.

It is quite true that standards of taste are often distressingly low in our society, and many goods are produced that hardly give basic, lasting satisfaction. Moreover, by some twist of psychology, many of us somehow enjoy a mood of self-criticism, such as Professor Galbraith (*Please turn to page 47*)

Part One



1961 OUTLOOK VARIES FOR — Which Offer Best Prospects — Which Face Problems

By WARD GATES

EXACTLY one year ago prognosticators were heralding the onset of a new decade with a frenzied zeal. Now the euphoric chorus has turned to grumbling and pessimism in response to the disappointing showing of the economy during 1960.

But just as optimism was too rife a year ago, it is probable that the current pessimism is being overdrawn. For although 1961 begins with most economic indicators in a downtrend, ample evidence suggests that the groundwork has been laid for at least moderate recovery later in the year.

For one thing, spending by both federal and local governments for defense and public works has been building up substantially through the final months of 1960. The let-up in defense spending that characterized the first half of 1960 was reversed near mid-year by a large outpouring of new contracts, most of which will be translated into dollars for industry during 1961 and early 1962.

Inventory Reversal a Reasonable Expectation

Another important cornerstone of a possible pick-up in business in 1961 is the inventory position of American industry. Since the end of 1959, industry has cut back inventories by almost \$5 billion—a swing big enough to account for most of the recession to date. But unless the current period proves to be highly untypical, it is unlikely that inventories will be cut much further, especially since the actual volume of final sales transactions in the economy rose during most of the year and are at high levels.

Exactly when a return to inventory accumula-

tion will start is, of course, impossible to predict, but since inventories usually swing sharply from one extreme to the other, recent reduction of stockpiles provides a genuinely hopeful sign for the business picture in 1961.

A few other factors can be added to government spending and an inventory turn to enhance the expectation of modest recovery in the year ahead. Probably the most important of these is the increased liquidity of banks, reinforcing their lending abilities, as well as the sharp increase in personal savings that developed during the last year. The combination of the two opens up the possibility of a resurgence in consumer spending if demand can somehow be stimulated.

No Rest For Investors

On the discordant-side, unemployment will probably continue to be a problem in 1961; increases in capital spending will depend on a prior pickup in overall economic activity; and of course, potential disruptions stem from the scheduled renegotiation of the auto worker's labor contracts next summer.

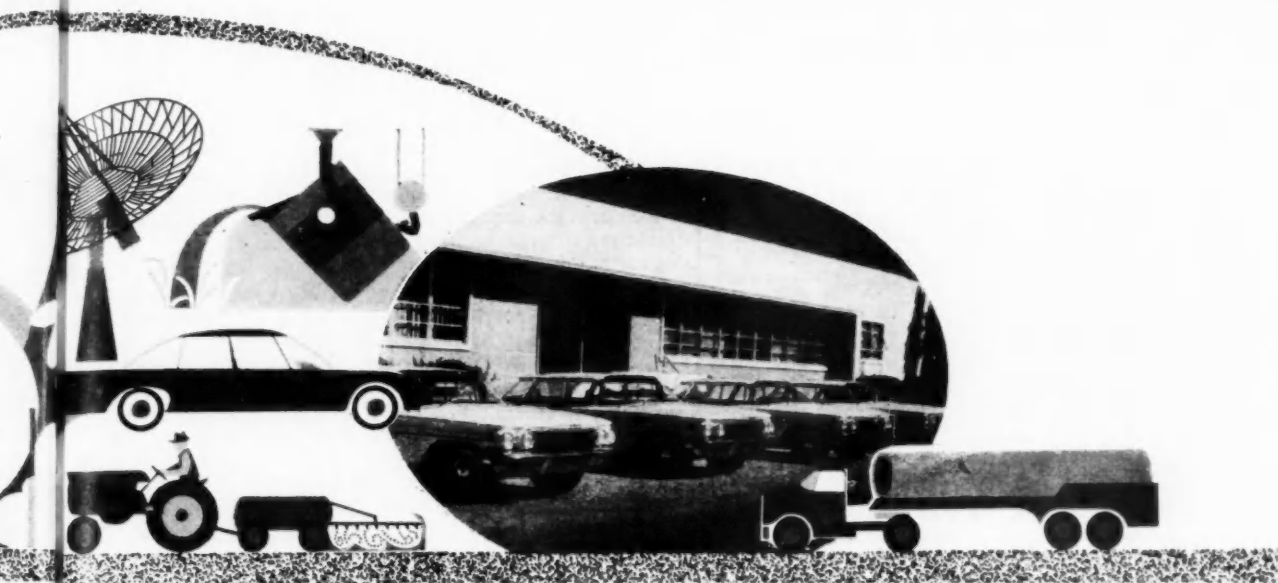
Nevertheless, on balance, 1961 promises to be a better year than the present atmosphere of gloom would indicate. For investors, however, no rest from their constant task of appraising and reappraising the prospects for individual industries and companies can be expected. For the existing overcapacity in many industries, and sharp challenges from the resurgent economies abroad will certainly keep profit margins depressed for all but

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ESFOR MAJOR INDUSTRIES

the more efficient producers.

Within this framework we will discuss the 1961 prospects for all of our leading domestic industries beginning in this article, with Part II to follow in the next issue of *The Magazine of Wall Street*. For the outlook on individual companies within each industry, the reader should follow with care our special 1961 Industrial-Investment Appraisals as they appear in each issue.

A "So-So" Year for Automobiles

Our December 17th issue carried a preview story of the automobile outlook for 1961, as well as a detailed description of the profit prospects for the individual companies. In brief, 1961 looks like just a so-so year for the car makers, with demand falling off somewhat, while high dealer inventories will take the edge off production.

In total, 1961 appears at this point to be a 5½ million car year, or about one million less than in 1960. Moreover, with more models than ever to choose from, customers are going to be tough to please. The best indication of this, of course, is the fact that the price line was held steady this year. Moreover, American Motors, the only manufacturer to raise prices, was forced to retreat, using a gimmick offer of bonuses to buyers of its cars during the first quarter of 1961.

The economy in 1961 it seems, will have to get along without the heady stimulus of booming car sales.

Mild Optimism Justified for Steel

The steel industry will be another enigma, especially in the early months of 1961. Indications are visible, however, that a turn for the better is developing.

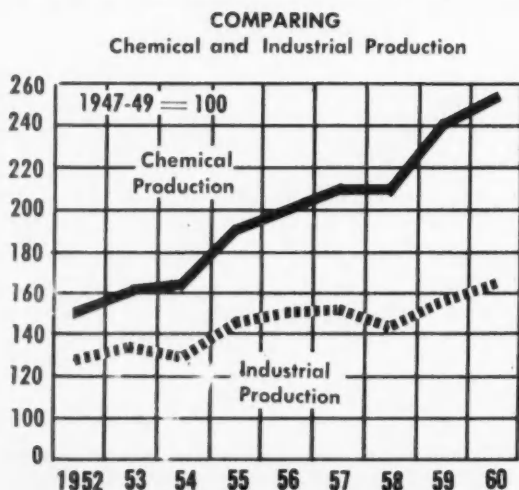
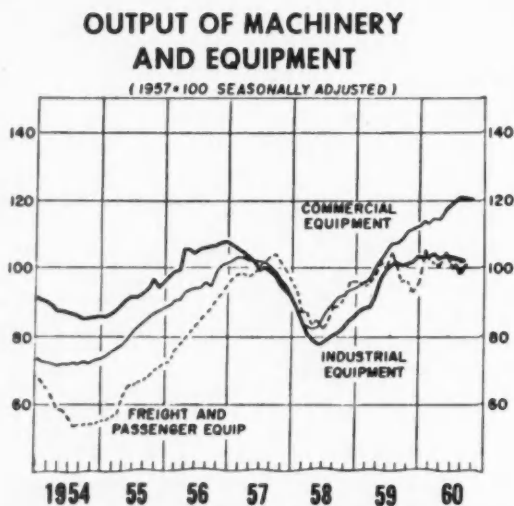
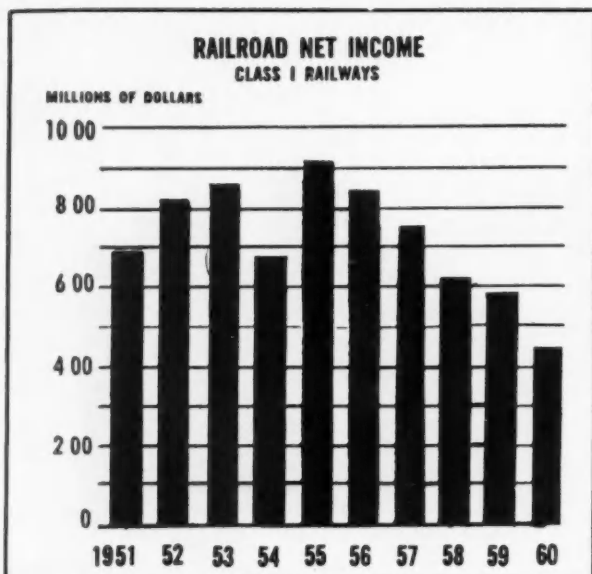
New orders, it is true, have shown no sign of a pick-up yet, but the decline appears to have been arrested. Furthermore, the industry looks a lot worse than it actually is because of the misleading habit of describing its output as a percentage of capacity rather than using actual tonnage output of steel, a practice that is now being terminated.

Even the tonnage output is down at the moment, of course, but the industry will not have to jump from its current 50% of stated capacity to near 100% for it to regain its health. As a matter of fact, 75% of capacity is probably about the level of maximum efficiency—and is a rate well within the realm of possibility before many months have passed. **At 75% of capacity it is worth remembering, the industry would turn out 112 million tons of steel—or only 5 million tons under the record output of 1955.**

With government spending for construction heading upward, and steel inventories at their lowest point in years (except for the strike period), plenty of room exists for a healthy pickup in output. The profit picture, to be sure, is less rosy. Overcapacity will make price increases difficult, if not impossible, thwarting the chances of offsetting the new round of wage increases that just went into effect.

In addition, the need to reduce break-even points and increase profit margins has driven many steel companies into heavy debt commitments to finance modern labor-saving equipment. Thus, not only will profit margins remain under pressure, but dollars needed for expansion will not be available for increased dividend payments.

In sum, 1961 should be at least an average steel year for the companies, but the stocks will remain unattractive for investors.



Firmer Tire Prices Expected

In 1960, the nation's tire and rubber companies shipped a record number of tires, but price cutting and strong competition reduced profits for most producers. For 1961, the picture is a little brighter.

The reason can be traced to an expected correction of the troubles of the industry in 1960. The major companies, finally recognizing that the major tire market was in the replacement field, embarked on what almost amounted to crash programs to establish themselves as leaders in this enormous market. The result was price wars among retailers, with each company backing its own dealers with elaborate discounts.

As 1961 opens, however, there are real signs of a stiffening of tire prices. Truck tire tags were raised in October and have remained firm since. Moreover, **Goodyear**, which led the way in price cutting in 1960 because of its relatively small share of the replacement tire market, has now become solidly entrenched in that field. With its objectives achieved, the company should be more interested in firm prices.

Without a booming automobile year, however, it is doubtful whether the major companies can score worthwhile earnings increases in 1961. Nevertheless, with more than 120 million tires to be sold in the replacement market, some improvement over their 1960 performance should be registered.

1961 Could Be Crucial for the Railroads

Railroad issues have been in a steady decline all through 1960, and little chance of a major upturn exists until general business recovers. The outstanding signs of the current plight of the carriers are their sharply depressed earnings and the insecure dividend rates of several railways.

Traffic is not likely to improve during the opening months of 1961. Even if business begins to recover earlier than expected, several months must elapse before this could be reflected by the carriers. Even so, some rays of sunshine in the bleak railroad picture may be detected.

Probably the most important is the genuine recognition by regulatory agencies that many rails are in serious financial straits, and must be afforded greater leeway in their competitive struggle with trucks, barge lines and the airways. In addition, some of the industry's innovations are beginning to meet with success. Piggyback operations have been more rewarding than the most avid optimists anticipated; and automation both in yard operations and on the road is beginning to pay dividends.

For the whole industry, however, these long-term attractions will be overshadowed in 1961 by the persistence of financial problems and such basic labor-management difficulties as the featherbedding issue. Perhaps by this time next year, however, President Eisenhower's new committee, just established to study the problem, will have found some suitable compromise. A greater excitement for railroad investors is likely to come during 1961 from merger proposals. The year, may, in fact, eventually go down as one of the most important in the eventual recovery of the industry, if the

featherbedding issue comes closer to solution and some of the more important mergers are actually consummated. (For full story on the Rails see special feature in this issue).

A Poor Year for Railroad Equipment

The rail equipment industry is always among the first to suffer in a recession, and the current situation runs true to form. Earnings for the equipment producers will head sharply lower in 1961 and recovery may have to wait until mid-1962 or even later.

The reasons, of course, are the poor financial condition of the carriers and the fact that they have adequate capacity now to handle all foreseeable traffic. As a matter of fact, potential mergers among many of the rails pose the threat that some capacity will actually be retired as duplicated facilities become superfluous for lines covering parallel routes.

Unfortunately, the industry's attempts to diversify its operations, to offset the sharp cyclical swings in the demand for rail equipment, have been only moderately successful. Except for the leasing operations of both **General American Transportation** and **Union Tank Car**, most diversification has been into other capital goods fields, which in a recession are also hit hard. There are exceptions, of course, such as the Melpar electronic operation at **Westinghouse Air Brake**, but even this is too small to significantly affect the declining earnings trend for the parent company.

Happily for rail equipment investors, most of the major companies are in excellent financial condition and should have little trouble weathering the current storm. But share prices and dividends will make poor reading through most of 1961.

A Quick Turn Possible Among the Chemicals

Earnings for the chemical companies will be on the downgrade as 1961 opens, but with any degree of recovery in the economy the picture could improve quickly.

The reason is, of course, that the chemical industry, with its low labor costs, always responds quickly to a business pick-up and enjoys a fast expansion in profit margins. This is true despite the current overcapacity for many basic chemical products and the strong competitive fight going on for dominance in plastics, synthetic fibres and nylon and rayon tire yarns. It would be unwise, however, to look for appreciable improvement before mid-year.

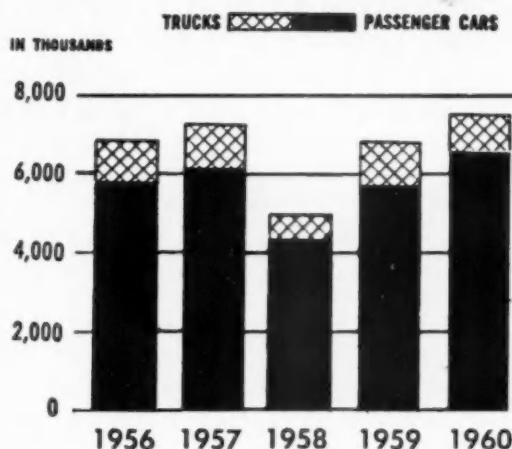
For one thing, steel production will have to pick up substantially before a large segment of the industry can begin its own recovery.

In addition, new uses for plastics are no longer developing as rapidly as a few years ago, which means that the existing demand is controlled by the levels of activity in the industries that are the principal users of plastics. These are the household appliance, automobile and rubber industries—none of which have very bright prospects for the opening months of 1961.

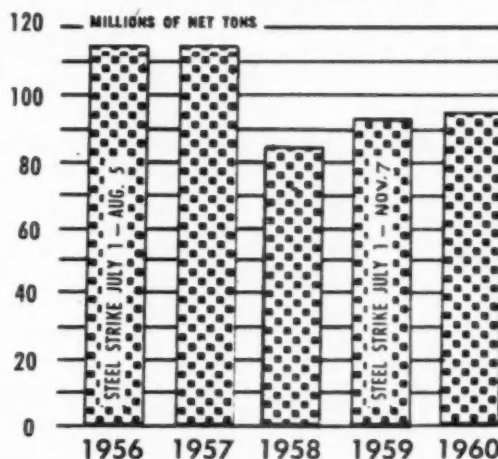
Despite these drawbacks, the chemical companies should be on the upgrade by the second half of the year. Many new products, especially in the fertilizer and synthetic

(Please turn to page 460)

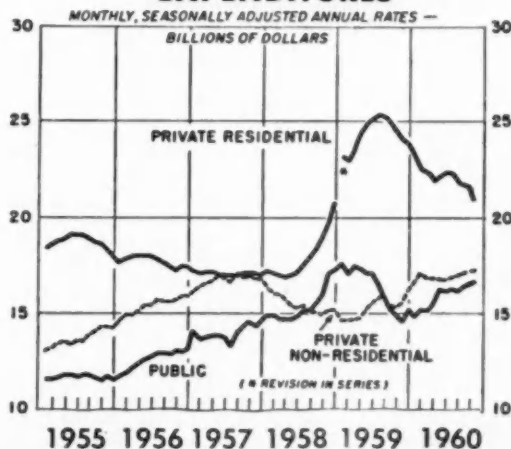
OUTPUT OF PASSENGER CARS & TRUCKS

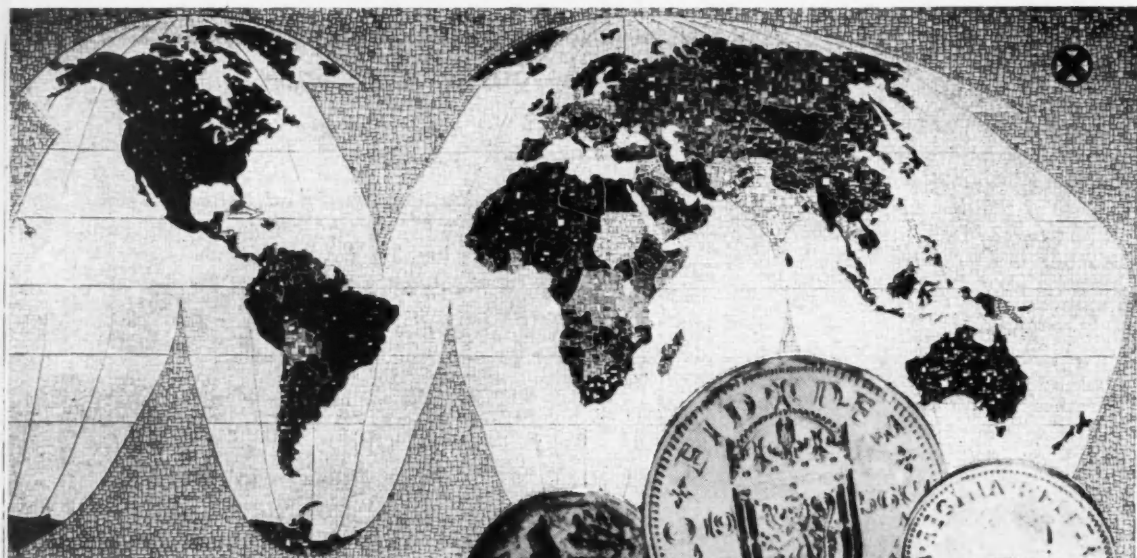


ANNUAL STEEL PRODUCTION



NEW CONSTRUCTION EXPENDITURES





THE WORLD CURRENCY OUTLOOK FOR 1961

By JACK BAME

- This forecast, by an international monetary expert, tells you what to expect regarding the value of the Dollar — the Pound — and the West German Mark in the year ahead
- As well as the monetary outlook for the various individual countries in the rest of Europe — Asia — Africa — Latin America — and in Canada too

BOTH national and international monetary affairs have assumed an increasingly important role in the global economic picture in the last few years, and international money markets have again begun to function rather freely and openly. Many war-wrecked currencies have fully recovered and gained new strength; a number of nations have reached higher stages of development, and in others, newly established, widespread political and social changes have necessitated the development of new monetary systems. The emergence of integrated economic blocs, such as the Common Market and European Free Trade groups, and the economic growth of the counterpart Soviet bloc have injected new aspects into the former relationships among world trade, finance and employment.

With the end of the post-war dollar gap and the change from a general strain on world-wide productive facilities to satisfy pent-up demands to a situation of excess capacity in relation to demand, we have entered a new era. As certain conditions pre-

viously assumed to have been of a permanent character have at least temporarily disappeared, together with the immediate threat of a continued and sharp world-wide inflation, we should now recognize that the existing situation itself may not necessarily be permanent, but merely another stage of transition. The basic conflict between economic policy, domestic and external, and currency restraints is, to be sure, more evident than ever, and strains in key areas are likely to become even more intense.

In this light, and in this season of abundant reviews and forecasts in many fields, an analysis of the leading problem areas of the currency world for 1961 is highly appropriate. These include 1) the U.S. balance of payments, the dollar and the American economic situation; 2) leading European currency developments, especially the German mark and Britain's pound sterling; 3) Latin American, Asian and African highlights; 4) the Soviet bloc as a factor in the monetary world and 5) a general summary.

The U.S. and Its Problems

The dominant position of the U.S. in the free world economy makes both its balance of payments problem and faltering domestic outlook the crucial economic problem of 1961. The American dollar, the hub of world trade and finance, plays an integral role in the picture, and is a focal point of global concern. The gold outflow of over \$1.6 billion in 1960 and the overall payments imbalance, which reached an annual rate of \$4.3 billion for the 3rd quarter of 1960, have been subjects for detailed analyses, in this magazine and elsewhere. And the varied reasons for these developments are by now rather widely known. Among the more important are 1) interest rate differentials between the U.S., the U.K. and West Germany, leading to an outflow of short-term funds for the normal attraction of higher earnings; 2) some exodus of funds for speculative purposes, switching into gold or foreign currencies; 3) government military and rehabilitation expenditures abroad, totaling about \$7 billion in 1960; and 4) the discrepancy between new investments abroad and receipts from earlier investments, as a good portion of investment profits are not being repatriated.

Two recent statements point out relatively new approaches to U.S. difficulties. One was by Edward Bernstein, noted international monetary authority, who stressed the fact that our payments deficit and the related huge U.S. government expenditures abroad have had a deflationary influence on the U.S. economy, reducing our aggregate generated demand in the U.S. by at least \$2.5 billion a year.

Another comment appeared in a letter to the New York Times by Congressman J. W. Barr, suggesting that the balance of payments be made an integral part of our budgets with actual projections made as to the impact of various appropriations and programs. Such estimates, while subject to error, would establish a "national framework of reference" emphasizing the interrelationship between the balance of payments and the domestic economy.

Methods of Attacking the Imbalance of Payments

What is the dollar outlook for 1961? The new administration is faced with a difficult problem, but our payments imbalance should be corrected, or at least brought down to manageable proportions, in the coming year or no later than 1962. Measures toward this objective could include, among others:

► More interest rate coordination between different countries, to effect a narrowing of the present gap.

► Limitation of domestic wage increases to productivity gains in the manufacturing area and corollary wage rises abroad more closely related to productivity gains.

► More sharing of aid by our prospering allies.

► Lowering of some foreign tariffs and further reduction of quantitative restrictions against dollar imports.

► Special domestic measures, such as a temporary—and only temporary—"buy American" policy tied to foreign aid.

► Streamlining of the foreign aid program itself.

► Reduction of duty-free import purchase allowances by returning U.S. travelers.

► Lowering of some U.S. farm subsidies, to increase exports and encouragement of foreign tourism in the U.S.

► Tightening up tax provisions affecting U.S. firms operating abroad.

► Possible declaration of a firm exchange guarantee in terms of foreign currencies (preferably) or in terms of gold, against any possible devaluation losses to foreign holders of dollar balances here.

With an export trade surplus running at about \$4 billion per year, the U.S. has no worrisome structural payments imbalance. Moves to reduce the overall deficit and to speed up domestic production and employment do have some areas of conflict, but there are many others which should be mutually

reinforcing. The problems have never been more widely acknowledged and concrete steps are finally being undertaken—later than should have been the case—to deal with the existing situation. This in itself is a hopeful sign. If the payments problem is directly and intelligently handled, a rise in economic activity at home will be facilitated and should simultaneously help to strengthen the dollar's international position.

A healthy domestic economy and a sound balance of payments can both be achieved. The solution will, however, involve much hard work and responsible thinking on the parts of government, management and labor.

Mild Pressure in U.K.; an Embarrassment of Riches in Germany

Europe, in 1961, will have two currencies in the main arena spotlight—Britain's pound sterling and the German mark. England has its problems, too. Total reserves (for the U.K. and sterling area) exceed \$3.16 billion (vs. \$2.73 billion at the end of 1959), and over \$600 million in external debt repayments were made in 1960. But the trade balance itself is running at a deficit of about \$300 million a year. High interest rates, which have enabled the pull of short-term funds into British Treasury bills to offset the current account deficit, have recently been declining, due to two bank rate cuts. If further reductions should take place, with the economic situation in Britain no longer booming, the pound could come under strain, as the inflow of short term funds would come to a halt.

► The likely prospects for 1961: some softening

SELECTED GOLD AND FOREIGN EXCHANGE RESERVES

Millions of dollars	1960	1959 (Dec.)	Change
U. S.	\$17,837	\$19,466	-\$1,629
U. K.	3,220 (Est.)	2,780	+ 440
W. Germany	7,034 (Oct.)	5,015	+2,019
Italy	3,200 (Est.)	2,953	+ 247
Netherlands	1,627 (Oct.)	1,355	+ 272
France	2,136 (Oct.)	1,720	+ 416
Japan	1,717 (Oct.)	1,322	+ 605

of sterling (which pressed against its \$2.82 upper trading limit in 1960) is possible, but no real weakness or run on the pound is likely; in brief, maintenance of basic strength with a minor downward fluctuation in terms of foreign exchange is indicated.

The German mark represents a problem of excessive strength vis-a-vis other currencies, at 4.17 per dollar. Bonn's export surplus on goods and services for 1960, about \$1.6 billion, has been added to her huge reserves. Swelled by incoming capital, reserve holdings have increased by over \$2 billion this year. No restrictive fiscal policies have been instituted domestically to reinforce—or to counteract—the effects of monetary policy, which has proven rather ineffective in lessening liquidity at home. The continued inflow of funds, while adding to Germany's reserve cushion, has intensified the strain on key currencies, such as the dollar, by immobilizing, in the Bundesbank's tills, a good portion of needed liquidity for world trade and payments as a whole.

► **1961 prospects:** a continued strong mark, more aid and investment capital exported, some lowering of interest rates, more domestic productive expansion, a creeping up of wage rates and prices, and some resultant decline in Germany's payments surplus. (These projections are based on an assumed increased degree of Free World monetary and financial cooperation; if such is not the case, we are all in for trouble.)

Elsewhere in Europe

The Italian lira should maintain its strength. Reserves have improved from about \$1.35 billion at the end of 1957 to over \$3 billion in late 1960. The lira is well managed and, if developments in southern Italy should begin to "take off" (which is doubtful for 1960), Italy could really expand on all fronts. More dollar imports are being authorized, additional Italian foreign aid and investment will take place and the lira will cling to its 620-625 level.

The Scandinavian currencies have no sharp movements in the cards. **Finland**, a particular trouble spot, has improved the standing of its markka and her adherence to the European Free Trade Area should strengthen her position. As Russia, an important trade partner, does not object to this, a major source of concern has, for the time being, disappeared for Helsinki.

Spain's currency is holding steady in foreign exchange markets, at 61.50 per dollar and no real strains are apparent for the first part of 1961.

Greece and Turkey, European problem children, show improved prospects. The former's currency, the drachma, remained remarkably steady in 1960 at from 30.00 to 30.50 per dollar and some form of membership in the Common Market should help her already stable monetary situation. ● **Turkey** is subject to too many political uncertainties and exchange transfer regulations to make any sensible projections for 1961. Her lira, now at 13 to 14 to the dollar, should hold close to this level for the time being.

The Dutch guilder is remarkably strong, at 3.77 per dollar, with reserves up by about \$500 million in 1960. Recent foreign exchange listings have strengthened further and the currency is the subject of increasingly widespread international use.

► The outlook for 1961 should be favorable, although recent political difficulties and cabinet shake-

ups over domestic economic issues might lead to some minor short term troubles.

Problem in France and Belgium

France, her new franc still strong at 4.93 to 4.94 per dollar and with gold and foreign exchange reserves rising by over \$415 million for 1960, has a number of possible worries for 1961. No real economic slowdown is apparent, as the production index rose faster in the past six months than in the first half of 1960. But labor disputes are sources of concern, and credit and interest rates have been eased. The Algerian conflict is the number one problem and the question of what happens after de Gaulle persists. Political trends will determine whether or not the franc will maintain its strength, as Central Bank management of the currency and gold markets remains top-notch. ► **Belgium's franc**, still feeling the effects of the Congo strains and a loss of some other African assets, is now encountering considerable opposition to an austerity program. Although the currency is in a basically sound position, it will continue to be subject to periodic political pressures.

► Prospects for Yugoslavia are good for 1961, as a new currency reform takes effect in January, devaluing the dinar to 750 per dollar and working towards a unified exchange rate and tariff structure to gradually replace the myriad of existing multiple parities. About \$280 million in Free World aid supplements this reform in a country which represents a growing market for world commerce.

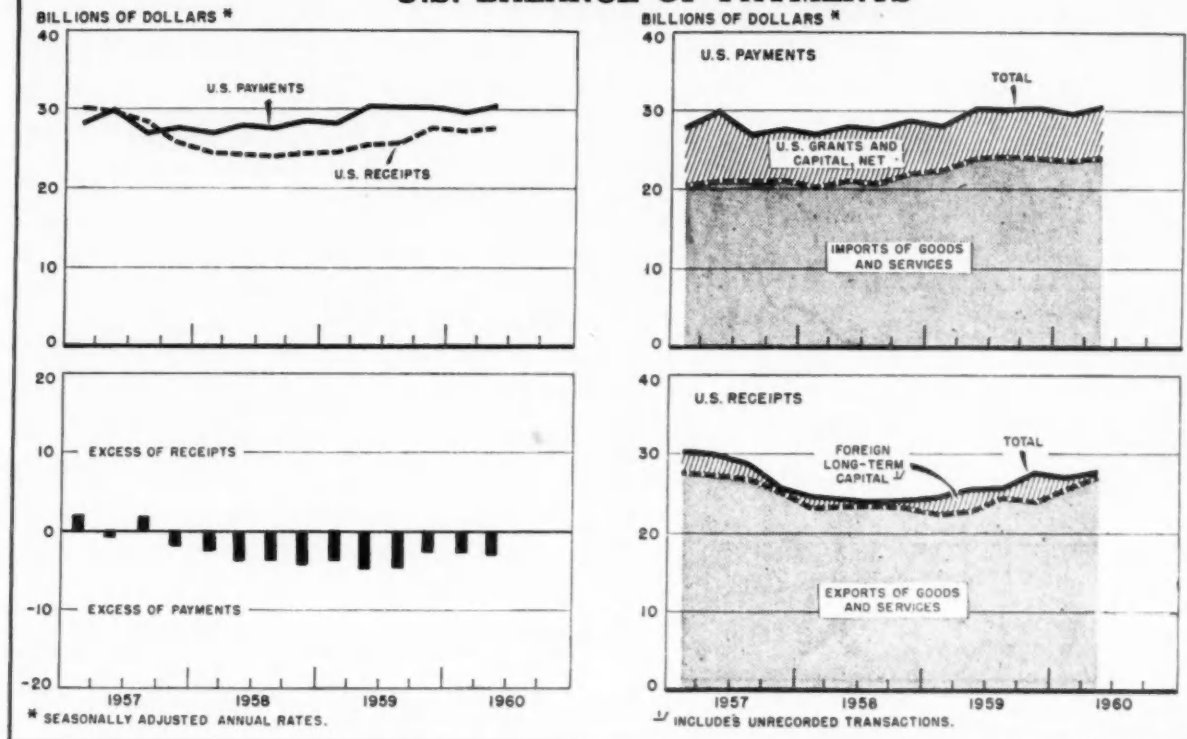
Canada, her dollar having dropped from \$1.05 in the early part of the year to \$1.003 at the end of 1960, starts the year in relatively weak economic position. Business lags at home, a dispute rages over Central Bank policies, restrictive actions have been taken against U.S. investments, the balance of payments continues negative, and a \$286 million budget deficit is anticipated for the present fiscal year. Pressures are heavy against Ottawa's dollar. But it should be kept in mind that it has moved contrary to expectations more than once before. Minor dips and rises can be expected daily, weekly and monthly, in response to day-to-day influences which are rapidly reflected in rather heavy trading in Canadian dollars in centers there and in New York.

More Serious Difficulties in Latin America

South America really has its currency problems and 1961, in general, will see more troubles in this area. Even a good 1960 performer like **Argentina** has an uncertain outlook. Her peso, steady at 82-83 per dollar throughout 1960, still lists considerable futures premiums for dollars. The domestic economy lags, banks are hard pressed for funds, industrial production is off, the budget deficit is rising and external debt payments are being postponed. ► Although the IMF made available a new \$100 million standby credit, **Buenos Aires' outlook** can be listed as one of very tenuous stability, in the light of the problems just enumerated.

Brazil's cruzeiro has declined considerably in foreign exchange listings in the last few moments, to as low as 220 per dollar. Gold and foreign exchange reserves are in a net deficit position of about \$200 million. The balance of payments deficit is running at about \$350 million per year. Bank notes in circulation continue to hit new monthly records, up about

U.S. BALANCE OF PAYMENTS



35% in a year; the Central Bank borrows and borrows from the Treasury and inflation seems to know no end in this country. (The cost of living is up about 45% for 1960.) **1961 prospects:** more of the same, at the cost of a lack of general economic development in favor of some beautiful cities and a lot of money for those in control.

Cuba has a continued drab currency picture to look forward to in 1961, as the peso lists at $\frac{1}{5}$ to $\frac{1}{4}$ of its official 1.00 per dollar parity in restricted unofficial exchange transactions. Havana now seems to be a solid communist satellite. The coming year is likely to show even closer ties to China and the East European bloc, especially as far as Cuban trade and aid is concerned. "Che" Guevara, the Central Bank chief, seems to be gaining more economic and political power. Talk of an ouster of the present regime is rather unrealistic, at present.

► **Other trouble areas in Latin America:** Dominican Republic, which withdrew from the IMF and World Bank and is the subject of increasing black market peso transactions; ► **El Salvador**, the scene of recent military and political uprisings, with more possible later in 1961; and especially ► **Venezuela**, which was plagued by communist and extreme rightist opposition, and saw its currency, the bolivar, joining the ranks of those with unofficial and multiple official rates. The new "free" market, a devalued variety of the basic rate, lists a dollar premium of over 34% compared with the original parity. More Central Bank intervention in currency operations and controls is likely for 1961. The cost of living will rise at the same time that economic activity is falling

off, handicapped by uncertainty and a lack of confidence on the part of business. More political unrest will arise. A rough year is in sight.

A Few Bright Spots in Asia; Chaos in Africa

► **Asia and Africa**, in addition to many areas of Latin America, highlight the general problems of underdeveloped areas and the **prospects for 1961 are again discouraging**, with no happy panacea in sight. The first-named continent does, however, have a few strong spots.

► **Japan** is the most solid currency-wise; her yen quoted at a firm 378-382 per dollar in unofficial trading transactions. External convertibility has increased the use of yen in international trade dealings and Japanese banks are playing a larger role in world finance. Gold and foreign exchange reserves are up to about \$1.75 billion (a one year improvement of \$428 million), exports and imports are rising, the overall balance of payments will show a more than \$500 million surplus and domestic expansion continued at a rate of over 10% in 1960. **Outlook for 1961:** another good year.

► **The Philippines** is another relatively improving area, the peso having firmed in free market quotation to 3.3 per dollar. The establishment of an official free market and the implementation of a system of progressive exchange decontrols has helped, credit has been eased, commercial dealings with countries other than the U.S. have expanded. Total Central Bank reserves have increased about \$50 million in 1960. If recent exchange moves continue, the peso should improve further (Please turn to page 462)



BY "VERITAS"

REGULATORY Agency reform as recommended by James M. Landis, in his requested report to President-elect John F. Kennedy, will not come about entirely as Mr. Landis suggested. Both—Landis and Kennedy—are in agreement that the various regulatory agencies are essential parts of government, that they must be continued, but whether under a "Czar" with virtually unlimited powers of coordination is a matter to be weighed by the President-elect

as well as by the new 87th Congress. The scathing criticism of Mr. Landis is already under fire from Congressional sources friendly to the regulatory bodies, while the respective agencies and their cohorts—in and out of government—are now doing the lobbying they feel needed to offset the harshness of the Landis report. Best educated guess at this moment is that the legislators will "go along" with the idea of some coordination, but not under an absolute authority. In summary, Congress will be skeptical of anything that would seriously alter powers of the so-called independent agencies if such alteration would tend to increase Executive policy direction at the expense of Congressional control.

ELECTORAL College reform still ranks high on the legislative agenda, perhaps more properly on the political scene. Liberals of both Parties are prepared to "go to bat" for abolition of the ancient system, but none is in favor of a direct popular vote majority for selection of a President. Opening day of Congress will see four or five resolutions calling for Constitutional amendments designed to reduce possibility of election of a future "minority" President. Several have been introduced in past Sessions of Congress, only to die in Committee pigeon holes. This time, however, there are fair prospects that one to distribute States' electoral college votes on a percentage basis will clear both Houses—how long it will take three-fourths of the States to ratify is anyone's guess. However, look for Mr. Kennedy himself to recommend something that would be more representative of majority opinion.

FARM LEGISLATION will be to the fore in the new Congress, but real progress is on the doubtful side. Radicals of both Parties will be in competition to reach a hoped-for solution to the enormous surpluses. Stringent acreage controls might be of some help, but the Solons would not be willing to agree lest there be too much power delegated to the Executive branch of government. At this point it adds up to a stalemate—Congress won't know what to do, nor can it look to the new Administration for really helpful guidance.

WASHINGTON SEES

The Iron Curtain has dropped between Key West, Fla., and Havana, Cuba, almost as effectively as it has fallen between Czechoslovakia and her neighbors to the West, according to best intelligence sources which say that the fall of the bearded Fidel Castro is not many months away.

As Castro's power and influence over his people seemingly waned, the hard-core Communists in his "government", headed by "Che" Guevara, have consolidated their hold on the island.

Munitions shipments, small arms and rather large field artillery—to say nothing of Moscow and Peiping trained technicians—have poured in for some months. The police state is complete; Castro's certain fall will mean little of advantage to the United States or other nations of the Western Hemisphere.

Revolt from within or without would be futile. The guns to mow down opposition are now available to those powerful Cuban Reds who are certain to take over on Castro's demise.

Not yet published is fact that the Russo-Sino combination of technicians and advisors have been building (and equipping) rocket launching sites of grave danger to this country.

Did we "miss the boat" when we waited for the South American States to make a decision for us on Castro when he was robbing, maltreating and killing American citizens? I hope not.

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As We Go To Press

Mineral Sales Move Upward, But 1961 Output Will Be Stationary Or Downward. This is according to best brains in Interior Department's Bureau of Mines. The 1960 mineral output hit an estimated value of \$17.8 billion, 4% above the previous year but \$300 million under 1957. Retarding the coming year's output will be lower demands for cement, clay, gypsum and stone—mostly for residential building construction. Also, demands for Anthracite coal will slacken, as will demands for Portland Cement, also a residential building material.

Copper production at domestic mines is up about 30%, while smelter production from domestic ores increased only 12%. The Department sees an "upward trend" for refined copper stocks despite a slight (3¢) drop per pound in the last 11 months. Lead and zinc consumption are down, and will stay that way because of low demand, plus liberal tariff quotas and other import concessions. In the meanwhile,

primary aluminum production hit an all-time high with finished shipments running about 200,000 tons behind production.

Defense Reorganization (a la Symington)

Foredoomed. Recommendations of Sen. Stuart Symington (D., Mo.), first Secretary of the Air Force, for a Pentagon streamlining which would totally unify the Army, Navy, Air Force and Marine Corps under a single defense chief is beaten before it starts— even though legislation to gain this end will be introduced shortly after Mr. Kennedy becomes President. Senate and House Committee chairmen of the Armed Forces Committees think little of the Symington recommendations although there is agreement that consolidation of Armed Forces procurement is an economic necessity. At this point, there is no substantial indication that the new President will endorse the Symington recommendations in their entirety. In the meanwhile, the separate services (supported by many private organizations) are prepared to utilize their own powerful lobbies against the proposed (or suggested) "streamlining".

Interstate Commerce Commission (ICC) Will Plough Ahead On Approval Of Rail Mergers. This despite the fact that new President will create a sort of Co-ordinator of regulatory agencies. Tip-off came when ICC, in record short time, gave its "blessing" to the Soo Line merger involving the Minneapolis, St. Paul & Soo St. Marie, the Wisconsin Central, and the Duluth, South Shore & Atlantic railroads in the face of determined opposition from

Labor and other sources. As previously reported here, economic welfare of involved carriers will be considered as a matter of "public convenience and necessity" lest failure to Okay the mergers cause one or more of the railroads to "go broke."

Bilateral Aid For New Nations (Mostly American) Gets Powerful "Outside" Support. During the past two weeks three private organizations, one of them closely allied with the Catholic Church, have "pressured" incoming President Kennedy to get behind their proposals for U. S. aid to the new nations "above and beyond our offer to channel aid through the United Nations." They have advised Mr. Kennedy there is a need and place for U. S. bilateral aid and technical assistance in terms acceptable to the aided infant nations. The recommendation is prompted by fact that Russia is even now helping the new republics—directly and without regard for any contemplated UN assistance.

Food Chains Survey New Year With Confidence. Despite generally pessimistic forecasts for 1961, the Food Chain Stores plan current year expansion of \$1.2 billion, somewhat more than was spent in 1960. About 1,750 new supermarkets (some of them replacing older and outmoded units) will be built, while sales are expected to move up a husky 8% and employment opportunities will advance by an almost equal amount. A minor cloud on the Food Chain horizon is mounting costs of operation, but newer merchandising methods are expected to almost completely dispel the problem.

New Congress Awaits Full Kennedy Program.

Although today 11 days old, the 87th Congress will remain dormant for another week, or until such time after inauguration (Jan. 20) as it will be necessary for the new President to submit his program in detail. Generally, his ideas will be incorporated in his inaugural address, but the Solons will await specific messages on the various headline features—farm, national defense, fiscal policies, aid to economically depressed areas, health insurance, labor, foreign relations, the regulatory agencies, etc. It is doubted that Mr. Kennedy will send it all up in "one package;" rather, there will probably be a staccato series of messages, each dealing with a separate subject. For a certainty, there will be no direct criticism of Mr. Kennedy's predecessor. President Eisenhower is—and will continue to be—too highly esteemed by the public and Members of the national legislature for the new Administration to severely criticize the policies of the past eight years. There will be revisions (mostly upward) of the final Eisenhower budget, but there will not even be a hint that higher taxes are in the offing, especially during the present Session of Congress.

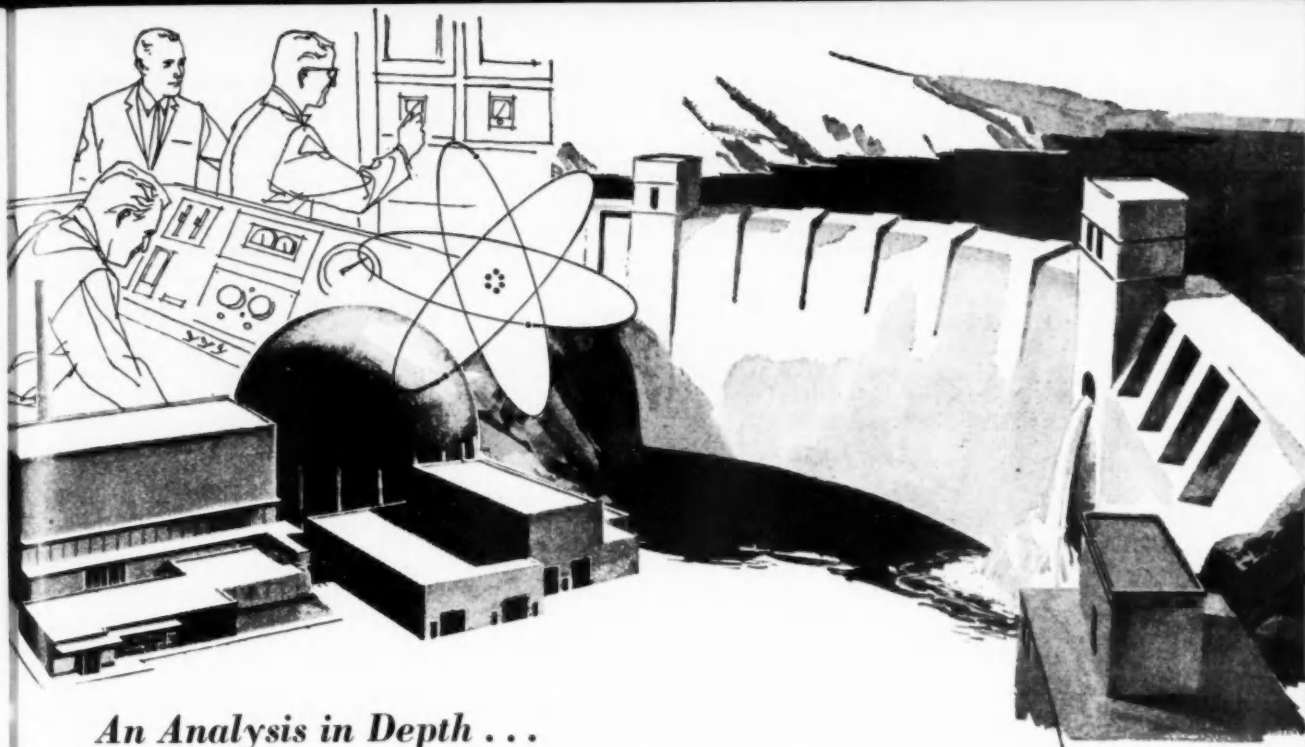
Upped Federal Pay Schedules, For Top Echelons, High On Kennedy Legislative Agenda. Although Cabinet, Sub-Cabinet appointments have come forth in rapid-fire order, plain fact is the President-elect has had difficulty in filling some of the top level appointive posts, primarily because of low Federal pay as compared with private industry reimbursement for highly qualified executives. Further, the President may ask for broader Congressional views on "conflict of interest" where proposed appointees are concerned. Too many have to make severe sacrifices to serve and it is known that this situation has brought two or three refusals to serve. Also, there will be requests for higher pay scales at engineering and scientific levels. Present Federal salary schedules in these areas are from 20% to 50% below those prevailing in private employment.

Proposed New Cabinet Post To Handle Urban Matters Now A Certainty. Tip-off came with

appointment of Robert C. Weaver, of New York City, as Administrator of the Housing and Home Finance Agency. Weaver, a Negro, has had wide experience in housing and urban affairs and will take over the highest Federal post ever held by a member of his race. Senate Banking & Currency Committee approval of Weaver for his HHFA job may run into some delaying tactics by southern members who will want the appointee's views on integrated housing. Later, however, any feeling that Weaver is to be the President's choice for the Cabinet post of Urban Affairs of a certainty would kill prospects for creating the new Department. Confidential advice indicates Senate southerners are "ready, willing and able" to filibuster the new Cabinet proposal to death if the New York Negro is really in line for the nomination.

Fuel And Labor Interests Indicate Fight On Nuclear Ship Savannah. Atomic Energy Commission (AEC) has called Feb. 1 public hearings to consider nuclear safety aspects of the N. S. SAVANNAH, world's first nuclear-powered merchant ship now docked at the Camden, N. J. yards of its builder, New York Shipbuilding Corp., and yet not nuclear fueled or ready for sea trials. The vessel will require no conventional fuel, only insignificant lubrication and will need an engine room crew about one-tenth the size of such crews on conventionally fueled vessels. Present indications are that maritime fueling interests, as well as certain maritime unions, will present AEC with voluminous safety objections in efforts to prevent the N. S. SAVANNAH'S use, or at least to head off future atomic powered merchant ship construction. Present success of nuclear propelled submersibles seems to preclude success for the objectors.

Elsewhere on the nuclear sector, Army has unveiled an atomic weapon small enough to be carried by one man. It dwarfs in firepower present conventional weapons and, according to Army insiders, "puts us way ahead of the land armies of any potential enemy, and without the hazards of fall-out to supporting troops." Such a weapon, previously forecast here, has been "in the making" for more than five years. Now that it is a reality, big job for intelligence services is to keep details from potential enemies.



An Analysis in Depth . . .

APPRAISING INVESTMENT POSITION OF UTILITIES IN 1961

— Electric and Communication Companies — Gas Pipelines

By OWEN ELY

- Outlook for the various utilities in the 3 distinct categories — growth or lag under divergent conditions regionally
- Prospects for changes in rate structure — adverse legislation — agitation for public power projects
- Earnings-dividend potentials for individual companies — where new financing is likely — capital expenditures for expansion — atomic power advances . . . plus pertinent comments, text and tables regarding 1961 outlook

THE past year has been an excellent one for the great majority of utilities. Both electric and gas utilities reported good gains in earnings although the showing of the communications and transit stocks was somewhat irregular. In the financial markets, utilities as a group (excepting transits) have far out-performed industrials, showing strong advances in most cases while many industrials declined sharply. On the average, electric utilities gained about 15% for the year, gas retailers 20% and gas pipeline stocks about 9%. There is no comprehensive index for communication stocks but AT&T recently made a new high, above the old 1929 peak—perhaps the only utility to accomplish this feat.

What about the 1961 outlook? Initial appointments by President-elect Kennedy do not suggest any more serious political problems for the utilities.

Low-cost money, favored by the new administration, should, in fact, help the utilities with their financing. Moderate inflation may arise from deficit spending designed to stimulate depressed areas as well as the general economy, but the utilities have fully demonstrated their ability to "live with" moderate inflation and to raise their earnings by increasing efficiency.

Last year the average electric utility increased its dividend rate about 4%, and 1961 should witness a continuation in this dividend strength.

Public Power Raises Its Ugly Head

Political uncertainties have, however, dampened prospects on the Pacific Coast. Regulation seems adverse in California, and agitation for public power projects may again appear in the Pacific Northwest. A large atomic plant now being built to

make plutonium for military use may be redesigned to produce a huge amount of government power. The old idea of "River Valley Development" (like TVA) may also be suggested by the international development of the Columbia River—whose huge hydro-electric potential has not yet been fully realized in Canada or the U.S.

The bare possibility also exists that TVA, which is now building by far the biggest and most efficient steam generating units in the country, might get Federal permission to spread out beyond its present service perimeter, competing with adjacent private utilities. However, this proposal was voted down last summer, and unless Mr. Kennedy strongly favors it a change of policy seems unlikely.

1960 Shows Further Gains in Electric Power Consumption

The weekly output of electricity in the U.S. reached a new record high of over 15 billion kwh in the week ended December 17, 1960, with a 6% gain over the corresponding week of 1959, despite the slackening in general business activity. While electric heating is not yet an important factor, recent cold weather probably helped set the new record. ● Output for 1960 as a whole also increased about 6%, it is estimated. The industry added about 1.1 million new customers, bringing the total to nearly 59 million, of which 50 million were residential. ● The average use of electricity in the house-

hold increased 230 kwh or about 6.4%; combined with the increase in customers, the gain in kwh sales approximated 9%. ● Commercial sales increased over 7%, but large industrial usage (comprising nearly half the total) gained less than 5%. ● The increase in revenues was about 6.5%, with the total amount reaching \$11.5 million.

Efficiencies Cut Costs

Despite the increase in output, the electric utilities were able to hold the increase in their wage payments to less than 4%—although the percentage increase in union wage rates may have exceeded this; in other words, the number of employees apparently decreased slightly. This was made possible by the installation of larger and more efficient generators, increased use of computers for accounting and billing and other improvements. The increase in fuel costs was also held to 4.2%, due in part to cheaper oil and coal, although gas continued to increase in price. Improved hydro conditions may also have contributed, although information for the entire year 1960 is not yet available.

Capital Expenditures

The electric utilities spent about \$3.4 billion on construction in 1960 (nearly 10% of all expenditures by private industry) bringing gross plant investment up to \$46 billion. For 1961 the industry

Comparative Statistics on Important Electric Utilities

	Earnings Per Share					Est. 1960	1960 Dividend Per Share †	Recent Price	Div. Yield	Price Earnings Ratio *	Price Range 1959-60
	1955	1956	1957	1958	1959						
Allegheny Power System **	\$2.06	\$2.15	\$2.19	\$2.26	\$2.36	\$2.40	\$1.70	41	4.1%	17.0	42½-32¼
American Electric Power	1.94	2.03	2.23	2.30	2.30	2.50	1.88 ¹	56	3.3	22.4	59½-45½
Baltimore Gas & Electric	1.01	1.16	1.17	1.19	1.41	1.55	1.00	28	3.5	18.0	30½-21½
Boston Edison Co.	3.40	3.45	3.12	3.55	3.69	4.10	3.00	66	4.5	16.0	69 -58¼
Central & South West Corp.	1.02	1.16	1.21	1.27	1.36	1.50	.96	40	2.4	26.0	42½-27
Cincinnati Gas & Electric	1.90	1.99	2.01	1.85	1.97	2.30	1.50	36	4.1	15.6	41½-30¼
Cleveland Electric Illum.	2.49	2.60	2.64	2.60	2.95	3.20	1.80	55	3.2	17.1	59½-44½
Commonwealth Edison	2.62	2.72	2.85	3.28	3.67	3.88	2.00 ¹	68	2.9	17.5	69½-55½
Consolidated Edison	3.12	3.20	3.44	3.74	3.92	3.85	3.00	67	4.4	17.4	68½-56¼
Consumers Power Co.	3.11	3.33	3.30	3.15	3.71	3.60	2.60	62	4.1	17.2	63½-52½
Detroit Edison	2.43	2.36	2.62	2.17	2.34	2.60	2.20	48	4.5	18.4	49½-40½
Duke Power Co.	1.56	1.65	1.90	2.08	2.16	2.30	1.60	52	3.0	22.6	53 -41½
Duquesne Light Co.	1.17	1.22	1.36	1.40	1.44	1.55	1.18	25	4.7	16.1	26½-21½
Florida Power & Light	1.03	1.30	1.49	1.75	1.93	2.15	1.00	61	1.6	28.3	68½-42¼
General Public Utilities	1.41	1.53	1.51	1.54	1.65	1.70	1.16	26	4.4	15.2	27½-22½
Houston Lighting & Power	2.52	2.80	2.75	2.94	3.04	3.30	1.60	89	1.7	26.9	90½-64½
Illinois Power Co.	1.73	2.00	1.95	2.10	2.70	3.00	2.20	61	3.6	20.3	61½-35
Long Island Lighting	1.43	1.68	1.72	1.82	2.02	2.15	1.40	40	3.5	18.6	43½-29½
Middle South Utilities	.96	1.09	1.21	1.31	1.40	1.45	1.00	30	3.3	20.6	33½-22
New England Electric System	1.24	1.23	1.19	1.26	1.31	1.35	1.08	21	5.1	15.5	22½-19½
Niagara Mohawk Power	2.22	2.13	1.91	2.12	2.07	2.30	1.80	38	4.7	16.5	41½-33½
Northern States Power	1.16	1.21	1.23	1.30	1.41	1.50	1.18	27	4.3	18.0	29¼-22½
Ohio Edison	1.77	1.90	1.81	1.80	1.98	2.15	1.48	34	4.3	15.7	38½-28½
Pacific Gas & Electric	3.32	3.37	3.41	3.74	3.70	4.00	2.60	72	3.6	18.0	72¼-58¼
Philadelphia Electric	2.39	2.59	2.60	2.76	2.90	2.90	2.24	50	4.4	17.2	57 -46½
Public Service Electric & Gas	2.26	2.10	2.22	2.14	2.27	2.80	2.00	43	4.6	15.3	43½-35¼
Southern California Edison	3.32	3.48	3.12	3.78	3.82	4.40	2.60 ¹	69	3.7	15.6	69½-54½
Southern Company	1.35	1.54	1.65	1.81	1.93	2.05	1.40	48	2.9	23.4	50½-34
Texas Utilities	2.06	2.35	2.56	2.73	2.93	3.15	1.92	80	2.4	25.3	86½-63
Union Electric Co.	1.70	1.70	1.94	1.77	1.84	2.25	1.80	39	4.6	17.2	39½-32
Virginia Electric & Power	1.27	1.39	1.53	1.66	1.70	1.90	1.20	53	2.2	27.7	53½-33½

**—Formerly West Penn Electric Co.
*—Based on estimated 1960 earnings.

†—Based on latest dividend rate.
1—Plus stock.

Comparative Statistics on Important Gas Companies

	Earnings Per Share					Est. 1960	Div. Per Share †	Recent Price	Div. Yield	Price Earnings Ratio *	Price Range 1959-60
	1955	1956	1957	1958	1959						
American Natural Gas **	\$3.03	\$3.78	\$3.55	\$4.03	\$4.55	\$4.90	\$3.00	79	3.7%	16.1	81 -55%
Arkansas Louisiana Gas	.52	.78	.90	1.27	1.68	1.65	1.00	35	2.8	21.2	38½-23½
Columbia Gas System	1.08	1.41	1.28	1.41	1.40	1.50	1.10	23	4.7	15.3	24½-18½
Consolidated Natural Gas	2.86	3.33	3.39	3.14	3.09	3.40	2.30	50	4.6	14.7	57½-42½
El Paso Natural Gas	1.02	1.69	1.32	1.29	1.32	2.10	1.30	27	4.7	12.7	35½-21½
Lone Star Gas	2.14	2.19	2.32	2.24	2.39	2.60	1.80	47	3.8	18.0	48 -35%
Northern Illinois Gas	1.22	1.44	1.36	1.41	1.80	2.05	1.20	43	2.7	20.9	44 -25%
Northern Natural Gas	1.60	1.78	1.87	1.62	1.92	2.20	1.40	30	4.6	13.6	35½-26½
Pacific Lighting	2.71	2.84	2.42	2.73	2.64	3.15	2.40	53	4.5	16.8	56½-45½
Panhandle Eastern Pipe Line	2.50	2.75	2.74	2.87	3.49	2.90	1.80	49	3.6	16.8	59½-40
Peoples Gas Light & Coke	2.85	2.90	2.93	3.05	4.04	4.15	2.60	64	4.0	15.4	66½-49½
Southern Natural Gas	2.37	2.41	2.35	2.40	1.85	2.30	2.00	38	5.2	16.5	46½-33½
Tennessee Gas Transmission	.96	1.05	1.13	1.23	1.29	1.40	1.12 ¹	24	4.6	17.1	25½-20½
Texas Eastern Transmission	2.11	2.05	2.52	2.33	2.02	2.45	1.40	31	4.5	12.6	36½-26½
Texas Gas Transmission	1.74	2.17	1.83	2.06	2.33	2.60	1.50	38	3.9	14.6	38½-27½
Transcontinental Gas Pipe Line	.87	1.00	1.13	1.17	1.25	1.25	1.00	23	4.3	18.4	25 -17½
United Gas Corp	2.03	2.28	2.51	2.41	2.27	2.20	1.50	34	4.4	15.4	42½-27½

Comparative Statistics on Leading Communications Companies

American Telephone & Telegraph	4.37	4.39	4.33	4.67	5.22	5.60	3.60 ²	107	3.3	18.3	103½-74½
General Telephone & Electronics	.97	1.05	1.04	.98	1.08	1.05	.76	27	2.7	25.7	34½-20
Western Union Telegraph	2.10	2.21	2.03	1.89	2.59	2.00	1.40	40	3.5	20.0	57 -29½

*—Based on estimated 1960 earnings.

†—Based on latest dividend rate.

**—Stockholders vote 4/26/61 on 2½ for 1 stock split.

¹—Plus stock.

²—Based on the proposed \$.90 quarterly dividend rate effective July, 1961.

has budgeted about the same amount. The industry now possesses very adequate plant capacity, the reserve being about 26% in excess of the maximum annual output or peak load.

Of course the reserves of individual companies and areas differ considerably—the reserves of the Pacific Northwest, with its heavy reliance on hydroelectric power, being low when water conditions are poor. The average industry reserve has increased greatly since the wartime period, when construction of new plant was difficult due to labor and material shortages. In the event of any deep depression, the industry could now cut its construction program sharply and live on its fat, for several years if necessary.

The electric utilities probably comprise our most consistent growth industry, doubling every decade on the average; present plans indicate that capability and output will be twice as large in 1970 as in 1960, and 1980 should quadruple the present figures. Contrary to politically-inspired concern that the U.S. is lagging behind Russia, we have 176 million kw of capability compared with the Soviet's 59 million kw; and our increase in 1960 was 12.6 million kw compared with Russia's estimated 7.5 million.

Active Promotional Efforts

In 1961 the electric power industry (including government agencies) expects to increase plant capacity by nearly 7%, and electric output is expected to gain by about the same amount. To achieve the latter result the private companies are continuing their big promotional projects, which include the "Live Better Electrically" Program, the Medal-

lion All-Electric Homes, and financial aid for re-wiring homes. The use of electricity for heating will again be heavily promoted, and greater use of electricity on the farm will be encouraged through ads in farm journals.

In 1960 the electric industry moved ahead with its **atomic power program**, although it is still unable to produce atomic power as cheaply as steam power—due largely to the heavy expenses of added construction precautions to insure safety against possible nuclear accidents. Two big plants were added, bringing the total to five—**Commonwealth Edison's** 180,000 kw station in Illinois and the Yankee 136,000 kw plant in Massachusetts. In 1961 two more large plants should go into operation (including Con Ed's Indian Point plant) bringing total atomic capacity to 760,000 kw or about 4% of the U.S. total plant.

The Regulatory Atmosphere

The electric utilities made 32 applications for higher rates during 1960 up to the end of November; 20 were granted, 1 was denied and 11 are still pending (this record does not include several *decreases* ordered by state commissions, as noted below). In the entire postwar period there were 597 applications, of which 536 were granted, 24 denied, 13 withdrawn and 24 remain pending. Due to the promotional nature of residential rate schedules (which automatically grant lower rates as the amount of use increases) the average revenue per residential kw continued, however, to decline slowly in 1960, as it has for many years. It is possible, on the other hand, that rates for industrial power may have shown a slight increase.

The regulatory picture (*Please turn to page 470*)



WILL THE RAILROADS SEE DAYLIGHT IN 1961?

— With analysis of roads in best position
—where static — or likely to decline further

By ROBERT B. SHAW

- ▶ Successful efforts made by individual rails to help themselves
- ▶ Possibilities now of a comeback through new recognition of rail importance economically and for defense . . . where Landis report suggesting changes in outmoded I.C.C. regulations wins Congressional support
- ▶ What progress now toward solving serious labor problems—emergence of rails as diversified transportation companies—outlook for rail mergers—state and municipal support toward re-establishing passenger service
- ▶ Buying rails on individual merit — what the investor should look for

ALTHOUGH the old year ended with a flurry of demand for railroad stocks, 1960 was not a happy year for the carriers. Twelve months ago it was universally expected that the resumption of steel-making at a capacity level would give the roads moderate traffic gains. Instead, steel production flopped and the final result has been the poorest railroad year since 1949.

Nevertheless, signs of conspicuous improvement are in sight. Among others, the trend toward railroad merger was accelerated during 1960. Piggyback

maintained its rapid rate of growth and is now beginning to exceed drop-in-the-bucket proportions. The divestment of profit-draining passenger services continued apace. More important, public aid for commuting schedules was secured in several localities, and some minor skirmishes on the featherbedding front were won. If the latter successes, admittedly only isolated events so far, prove prophetic the effect upon net income could be more substantial than any other development in the railroad industry since dieselization.

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A Summary Of 1960 Results

But before we look at these more encouraging aspects, a brief review of 1960 results is in order. Eleven-month reports are now out for most roads, giving a fairly clear picture. For reasons that everyone is now familiar with, railroad traffic dropped narrowly—perhaps 2% or 3%—from the already unsatisfactory 1959 level. Only a handful of roads—**Rio Grande, Nickel Plate, Chesapeake & Ohio and Atlantic Coast Line**—managed to buck the trend, and even these suffered earnings setbacks, as expenses continued to mount. In an almost unique category was **Pittsburgh & Lake Erie**, the prosperous New York Central affiliate, which showed an impressive gain both in gross and in net per share. **Norfolk & Western** was also noteworthy, with an advance in net despite a \$2 million reduction in gross revenue. The **New York Central** system as a whole faces a small per share deficit for the year, despite a bare 1% drop in gross, and **Pennsylvania** will probably be in the red for only the second time in its 125 year history.

● This picture is less than encouraging, but some brighter features can be detected. ► First of all, most of the roads really suffering are concentrated in New England and eastern “trunk line” territory. For those in the South and the West conditions were less severe. ► Secondly, the decline in gross revenues was, in most cases, much narrower than that for many machinery and other manufacturing companies. While even this much of a reduction was crucial in such a narrow profit margin industry, it does suggest that the real problem is, not the paucity of traffic, but lack of control over costs—a problem that is difficult but not insurmountable. ► Finally, the very distress to which a few railroads have succumbed has created a wider public recognition of some of the discriminations against them.

The Biggest Problem: Labor Costs

With no intention of labor-baiting, but simply to recognize facts, it is necessary to say that excessive and unreasonable labor demands are largely responsible for the predicament of the railroads. In essence, railroads are now being operated, neither for the benefit of their corporate owners nor their patrons, but primarily for the advantage of their employees.

Does this statement require proof? Well, extreme requirements for the protection of jobholders in the face of technological improvement, obsolescence or even evaporation of demand, although commonplace in socialistically inclined regimes abroad, exist nowhere else to the extent they do in the railroad industry. Railroad consolidation, although universally recognized as a benefit to shippers, investors and the general public alike, is consistently opposed by labor. Actually, liberal labor-protection clauses have been attached to all mergers, and in most cases no loss of jobs will occur except as men resign or retire. This is not sufficient protection for the unions. Thwarted in their attempt to block the recent **Erie-Lackawanna** merger, they are now mounting an assault against the proposed **Great Northern-Northern Pacific-Burlington** combination, under which

8100 employees would be “affected” (obliged to move, etc., but none would be discharged).

The degree to which progress on the railroads may be blocked by exaggerated protection of labor will be determined, finally, as a matter of public policy. Several recent events offer hope, however, that more reasonable standards will be adopted. In the recent election the North Dakota surplus brakeman law was repealed by the electorate—the unions forced the measure already passed by the Legislature to a general referendum—and this, by reducing existing six-men crews to five men, without costing anyone his job, will eventually save the railroads an estimated \$1 million a year in that state. In the East Governor Rockefeller has now recommended repeal of the New York excess crew law, as one step in a program to preserve the railroad passenger service.

● Much more important than any local action will be the outcome of the nation-wide contests over featherbedding, particularly the necessity for firemen in fireless Diesel locomotives. Originally scheduled for a show-down in the fall of 1960, decisions on these questions have been postponed a year by the recent establishment of an arbitration committee consisting of five management, five labor and five public representatives. The recommendations of this committee will not be binding on either side, but are expected to carry strong weight nevertheless. Although the unions will undoubtedly look to the new Democratic regime for backing, the general climate of opinion seems more favorable to the railroads than at any other time in recent years.

Progressive Divestment Of Passenger Services

The railroads provide a prime example of the psychological phenomenon of split personality in their attitude toward passenger services. Most of them have passenger departments still actively engaged in promoting travel, and yet top management has generally thrown in the sponge as far as this service goes. A few railroads, by expedited schedules, reduced fares and the introduction of new equipment, have actually increased passenger patronage in recent years. The **Seaboard Air Line**, for example, has just experienced the heaviest summer travel to Florida in thirteen years, and for 1960 as a whole will show a 10% gain in passenger revenue. And while the railroads certainly can't come close to competing with the airlines in respect to speed, their attitude toward passengers seems defeatist while the highways are becoming more clogged daily and the long distance buses are still looking for business.

● A public interest in the preservation of passenger services also exists. Evidence suggests that the decay of some smaller cities, like Auburn, N. Y., or Burlington, Vt., and the tendency of industry there to move away, are partly the result of the inability to reach these points by rail. And if, in the event of some much-to-be-hoped-against disaster, it should become necessary to evacuate central metropolitan areas rapidly, the chaos that would ensue as everyone piles in his automobile and converges upon the **George Washington Bridge** and the **Lincoln Tunnel** is horrible to contemplate.

To be sure, the railroads cannot be expected to operate passenger trains as public services, at their

Statistical Position of Leading Railroads

	Gross Revenues 1st 11 Months 1959 1960 —(Millions)—		Percent- age Change %	Operating Year 1959	Ratio 1st 10 Months 1960†	—Net Per Share*—		1960 Div. Per Share **	Recent Price	Div. Yield	Rat- ings
	1959	1960				Full Year 1959	1st 11 Months 1960	Est. Full Year 1960			
Atchison, Top. & Santa Fe	\$578.5	\$562.9	-2.7	75.3%	78.7%	\$2.45	\$1.40	\$2.15	\$1.45	22	6.5% A2
Atlantic Coast Line	147.9	148.7	+ .5	79.7	80.6	4.74	3.55	3.75	2.50	44	56 B2
Baltimore & Ohio	360.1	361.4	+ .3	81.2	82.1	4.87	d.26	.50	.80 ³	28	2.8 C4
Chesapeake & Ohio	317.6	318.5	+ .2	74.5	76.0 ⁶	5.58	4.63	5.25	4.00	60	6.6 A2
Chic., Milw., St. P. & Pac.	222.2	212.7	-4.3	82.2	81.5	1.55	d.53	.50	1.50	14	10.7 C4
Chicago & Northwestern	197.1	192.1	-2.5	85.7	85.2 ⁶	d9.18	d10.87	d8.25	—	14	— D4
Chic., Rock Island & Pac.	201.9	195.2	-3.2	78.8	79.8	2.84	1.57	2.25	1.60	21	7.6 B4
Delaware & Hudson Co.	60.1	55.7	-7.3	76.6	81.2	2.00	.47	1.25	1.40	19	7.3 C4
Denver & Rio Grande W.	68.9	69.8	+1.3	67.1	67.3	1.37	1.18	1.45	1.00	17	5.8 B2
Erie-Lackawanna	206.2	204.0	-1.1	—	86.9	d2.26	d3.43 ²	d2.75	.4	5	— D4
Great Northern Ry.	233.6	228.3	-2.2	77.4	78.4 ⁶	4.35	3.03	4.00	3.00	48	6.2 B2
Gulf, Mobile & Ohio	68.3 ¹	64.0 [†]	-6.2	76.4	79.3	2.17	.95 ¹	1.40	2.00	18	11.1 C4
Illinois Central	247.9	239.1	-3.5	78.4	81.1 ⁶	4.83	3.13	3.75	2.00	31	6.4 B4
Kansas City Southern Sys.	37.9 ¹	36.3	-4.3	58.0	59.8	10.02	4.03 ¹	8.50	4.00	67	5.9 B2
Lehigh Valley	45.2 ¹	43.4 ¹	-3.8	89.1	91.2	d1.59	d1.58 ²	d1.75	—	4	— D4
Louisville & Nashville	208.8	208.0	— .3	79.6	82.0	5.50	3.70	4.75	4.00	50	8.0 B4
Missouri Pacific "A"	277.9	274.4	-1.2	76.1	76.6	8.31	5.79	7.25	2.40	40	6.0 C2
New York Central	626.6	622.0	— .7	83.7	84.2	1.29	d.32	.50	.5	16	— D4
N. Y. Chicago & St. Louis	136.4	138.6	+1.6	71.1	71.4	3.19	2.47	3.25	2.00	38	5.2 B2
N. Y., N. H. & Hartford	131.8	123.0	-6.6	86.6	90.3	d12.29	—	—	—	3	— D4
Norfolk & Western	225.1	223.1	— .9	61.1	59.5	8.10	7.43	8.25	5.00	100	5.0 A2
Northern Pacific	169.2	161.8	-4.3	79.7	84.4 ⁶	3.97	2.63	3.00	2.20	42	5.2 B2
Pennsylvania	810.8	780.8	-3.7	82.0	82.4	.55	d.39 ²	—	.25	11	2.2 C4
Reading	97.2	97.8	+ .5	84.3	83.0	d.68	d1.01	.60	—	8	— C4
St. Louis-San Francisco	122.0	120.0	-1.6	80.4	79.2	2.83	2.29	2.25	1.00	16	6.2 C2
Seaboard Air Line	146.7	144.1	-1.7	75.7	78.3	3.52	2.68	3.15	2.00	32	6.2 B2
Southern Pacific Sys.	634.1	616.1	-2.8	78.2	77.9	2.57	2.32	2.40	1.12	20	5.6 B2
Southern Railway	246.8	238.8	-3.2	67.6	70.6	4.65	3.63	4.30	2.80	50	5.6 B2
Union Pacific	471.6	454.1	-3.7	73.4	73.0	2.71	2.38	2.75	1.60	27	5.9 A2
Western Pacific	45.1 ¹	44.3 ¹	-1.7	77.9	79.2	2.24	1.54 ¹	1.50	1.00	25	4.0 B2

d—Deficit.

*—Before funds.

**—Based on latest dividend rate.

†—Most 11 mos. oper. data not available at time of going to press

¹—1st 10 months.

²—Approximate.

³—Company declared three \$.20 quar. dividends to 9/18/1961; down from \$.37½ quar. in 1960.

⁴—25% stock payment 10/24/1960.

⁵—Paid \$.75; dividend omitted 10/4/1960.

⁶—11 months.

RATINGS: A—Best grade.
B—Good grade.

C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.

3—Earnings up from lows.
4—Lower earnings trend.

own expense. As presently organized, the passenger service is generally unprofitable, and elimination of many trains will result in immediate out-of-pocket savings. Discontinuation of schedules was greatly accelerated by the Transportation Act of 1958, which extended the authority of the Interstate Commerce Commission vis-a-vis the state commissions and recognized poorly patronized trains as a burden on commerce. Since that enactment, some two million passengers have been "liberated" from their trains, and other trains are being taken off every month.

● The commuting services cannot be killed off so easily, and are likely to survive in some metamorphosed form. New Jersey has just noted subsidies to the passenger-carrying roads as a temporary holding measure; and Philadelphia has already been following for several years a more elaborate scheme for rebuilding the commuter traffic. New York State is likely to follow suit. Such measures as these suggest that the commuting burden may soon be substantially lightened if not lifted altogether.

● The passenger services have still another aspect. For many members of the public, some of whom probably do influence the routing of freight traffic, the passenger trains and stations are the only part of the railroad they ever actually see. And, with few exceptions, they do not give a good impression. For this, management itself must be held directly to blame. While it may be desirable to continue the progressive elimination of passenger trains, standards of efficiency, courtesy and cleanliness on those which are still operated should be considerably higher.

Thorough Rate Revision Required

Traditionally, railroad rates were based primarily on a value-of-service basis, i.e., manufactured goods and luxury articles paid considerably higher tariffs than bulk commodities like coal, ores, wheat and timber. This built up traffic and was socially beneficial—until the trucks appeared on the scene and started taking the high-rated items or "cream" away from the roads. But although the railroads lost their former monopoly a full generation ago, rates are only beginning to be revised, and generally the roads have continued to hold a protective umbrella over their competitors, virtually guaranteeing them a large share of the more remunerative traffic.

● A growing tendency now exists, however, to shift to a cost-of-service basis, and this has already brought much traffic back to the rails. The danger of this process is, of course, that it may affect rates on traffic that has not been susceptible to competition. Nevertheless, some commodities, such as paints, were almost entirely lost to the rails, so that published rates were purely theoretical. Any rate better than out-of-pocket cost that will induce traffic is more remunerative than high rates under which no traffic moves. Rail costs are lower than truck costs, and the roads should be able to beat the trucks at this game.

● Volume and other inducement rates may also be instrumental in regaining lost traffic. A volume rate offers a sharp reduction to any shipper who commits himself to shipping a stated percentage, perhaps 85%, of his total traffic by rail. This prac-

tice has now become accepted in Canada, but when the New York Central recently offered Mohasco Industries such a rate on carpeting, and the Soo Line entered a similar agreement with a tube company on pipe shipments, an I.C.C. examiner suspended both rates.

Thus, their legal status is now in doubt, but it is inevitable that rates of this general character must eventually be authorized and adopted. Railroads must be allowed to sell their service on a wholesale basis, just as all other industries are able to do.

In passing, it may be pointed out that the entire railroad rate structure is a monstrosity. Not only does it shelter competitors and encourage private ("do-it-yourself") transportation, but it absorbs an inordinate amount of energy in figuring out the "divisions" among different railroads on interline hauls. Some simpler rate basis must be devised.

Piggyback A Resounding Success

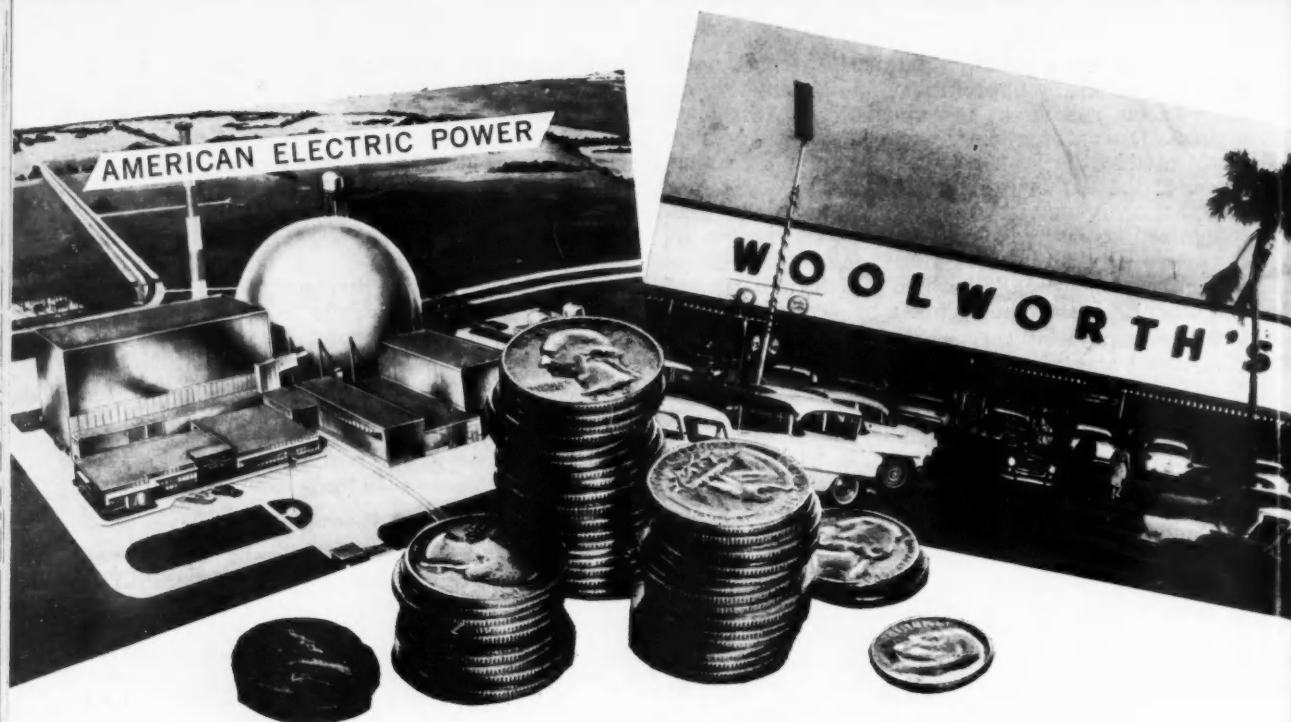
Piggyback, or TOFC (trailer-on-flat-car) as roads with a greater sense of dignity prefer to call it, has continued its rapid rate of growth—35% in 1960 above 1959—and now contributes 2% or 2½% of total freight revenue. Further expansion must be at a slower rate, as the basis of comparison will be constantly larger, but the 7% of revenue which TOFC already represents on the Wabash can be regarded merely as an interim target.

Piggyback is still handicapped by a lack of uniformity; the service is offered under five major plans, depending upon who owns the cars and trailers, and with several varieties of physical equipment. At present most roads are moving entire trailers, but the Central and the Milwaukee favor the containers alone, minus wheels. After eight years of experimentation Chesapeake & Ohio's hermaphroditic railvan (both truck and rail wheels on the same vehicles) has not yet achieved acceptance beyond one experimental postal run in Michigan, but prototypes are being built under license in England.

After a period of necessary experimentation uniformity is bound to come, just as it did with the standard gauge and universal coupler, introducing a second stage of growth for piggyback. But it is not necessary to look into the future for signs of its success.

Already, movements of automobiles have shifted so largely back to the rails that a number of truck transporters have gone out of business, while Hoffa and the Teamsters Union are crying for a Federal investigation of this "unfair competition". Some truckers even went so far as direct sabotage, by pouring acid from an overpass on to a long trainload of new cars. Ford expects to save \$40 million by shipping most of its 1961 cars by rail, and both Chrysler and GM slightly smaller amounts.

The railroads believe that 75% of piggyback shipments represent new or recaptured traffic, rather than diversions from their boxcars. It is unlikely that piggyback will ever displace the boxcar, but it does provide a combination of rail economy with truck flexibility for the medium size shipper or any one lacking a direct rail siding. Thus, we can expect to see a period of somewhat slower but more solid growth in this (Please turn to page 464)



Two Excellent Companies

In a Growth Phase Today

★ American Electric Power

By PAUL J. MAYNARD

★ F. W. Woolworth

By EDWIN CAREY

— Watch for a buying point on these two investment issues
... the power company a blue chip operating in the growth area stimulated by the St. Lawrence Seaway — nets 5.7%, which includes 3.2% in cash and 2.5% in stock ... the second, a long-established company successful at home and dynamic in two countries abroad — nets only 3.7% currently

★ American Electric Power system is not only the largest investor-owned electric power system in the United States but it is also second to none in efficiency. This emphasis on efficiency has paid off handsomely for investors in American Electric Power stock over the past decade and promises to continue to reward them well in the years ahead. Just how well investors in American Electric Power stock have fared in the past ten years may be seen from the fact that 1960 was the eighth consecutive year in which the Company's cash dividend was increased. While the stock is currently selling in the middle fifties, just about where it was selling ten years ago, stockholders now hold about $3\frac{1}{2}$ times

as many shares as they did then because of stock split-ups and stock dividends which have taken place seven times, including the $2\frac{1}{2}\%$ stock dividend declared in 1960. Thus, \$100,000 invested in American Electric Power stocks in 1950 is now worth about \$350,000.

This record has been based not on hope, expectation or anticipation, but on solid progress along the lines of increasing net earnings through providing service having a greater economic value than the rates charged. Despite the sharp inflation which characterized the 1950's, American Electric Power brought down the average cost of electricity to the customers—the price per kilowatt hour—by 17%

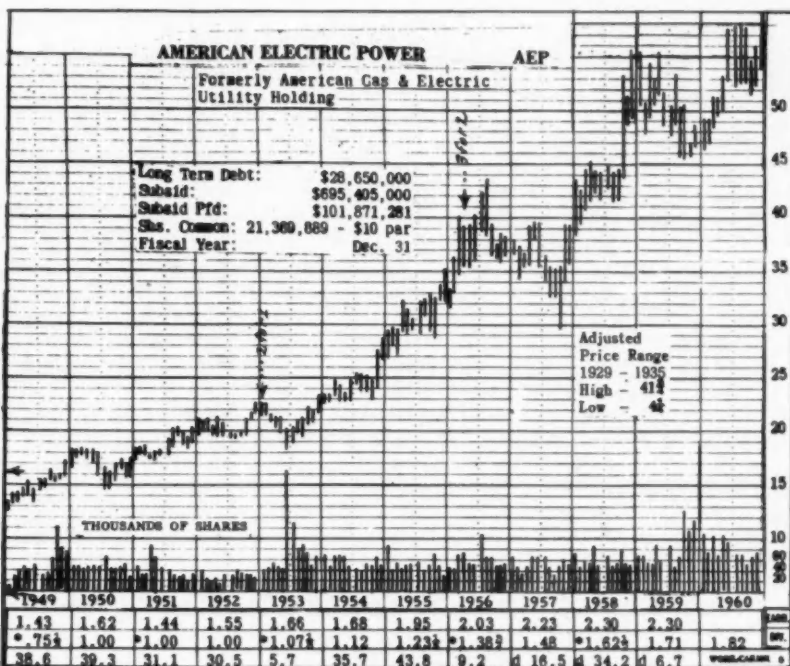
during that decade. To a large extent this was made possible by continually utilizing new, larger and more efficient generating equipment to reduce the number of heating units required to produce a kilowatt hour of electricity by 27.6% from 13,445 British thermal units in 1949 to 9,725 in 1959.

Since one pound of coal produces about 14,000 BTU's, this means that the American Electric Power System reduced the amount of coal per kilowatt hour produced from just under one pound in 1949 to seven-tenths of a pound in 1959. By increasing its efficiency, the American Electric Power System has been able to reduce its average rate charged domestic or residential users from 2.91¢ per kilowatt in 1949 to 2.23¢ in 1959, and still to increase its consolidated net earnings by 130% from \$21,447,000 to \$49,253,000 in this same period.

The Company's great strength today lies in the fact that it has not sought rate increases so that the rate of return earned on its plant account is under 6%. Thus there is a margin of increase in rate of return which could take place before regulatory authorities might be expected to seek rate reductions.

Growth Still Ahead

While the record of the past may be regarded as perhaps the best indication of American Electric



Power's future prospects, there are several other good reasons for reaching the conclusion that considerable further growth in business and in net earnings lies ahead for this Company. Electric energy is so basic an element in the nation's economy that future growth in demand appears to be as certain as it is that the nation will experience further economic growth and expansion. Furthermore, as pointed out in the Company's 1959 Annual Report to Stockholders, at no time in the 53 years of the Company's history "has been greater promise of new technological improvements on the way which will add materially to improvement in the quality of electric service and reducing or keeping down its cost."

Research has been an important activity, yielding economies in the operating costs of American Electric Power over many years. This has been true not only in the field of electric energy generation, delivery and use but also in such areas of activity as computer customer billing and electronic accounting of material inventories, payrolls, etc. The AEP System has been engaged in work on atomic power for more than 14 years, participating in the East Central Nuclear Group, Inc. and in Nuclear Power Group, Inc. The longer range potentialities in the field of nuclear energy are great. For the more immediate future, however, the Company's work with gas turbine-steam power plants using coal for energy production, and its joint research

Income Data

	Total Operating Revenues (mil.)	Depreciation	Income Taxes (*)	Oper. Ratio	Net Inc.	Times Earned Over-all Charges	Earnings Per Share	Div. Per Share
AMER. ELEC. POWER CO.								
1960 (1st 9 months).....	\$253.6	\$33.1	\$35.2	N.A.	\$40.1	N.A.	\$1.88	\$1.88 ¹
1959	323.6	42.3	43.0	63.3	53.6	3.0	2.30	1.71
1958	296.5	38.2	38.7	63.3	50.6	3.1	2.30	1.62 ²
1957	283.7	34.4	39.9	63.2	48.3	3.1	2.23	1.48
1956	267.8	32.0	38.2	63.8	44.4	2.9	2.03	1.05

* Including deferred taxes.

N.A.—Not available.

¹ Latest 1960 rate, plus 2 1/2% stock dividend payable 1/10/1961.

² Plus 2 1/2% stock.

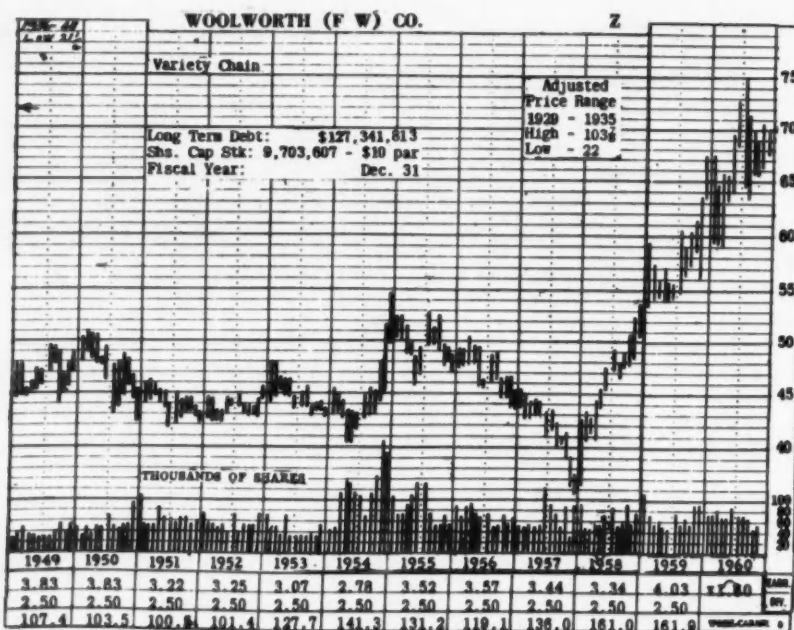
³ Plus 2% stock.

	Net Working Capital	Net Sales	Depreciation & Amort.	Net Income	Net Profit Margin	Earn Per Share	Cash Earnings Per Share	Div. Per Share
			(Millions)					
F. W. WOOLWORTH CO.								
1960 (1st 9 months)	\$ —	\$692.2 ¹	N.A.	N.A.	N.A.	\$1.60 ²	\$ —	\$2.50
1959	161.9	916.8	\$23.1	\$39.0	4.2	4.03	6.41	2.50
1958	161.0	864.5	22.4	32.3	3.7	3.34	5.64	2.50
1957	136.0	823.9	19.1	33.3	4.0	3.44	5.41	2.50
1956	124.1	806.2	17.5	34.6	4.2	3.59	5.37	2.50

N.A.—Not available.

¹ Includes German and Mexican subsidiaries.

² 1st 6 mos.



X—9 Months ending September 30th.

project with Avco Corporation producing power through the MHD principle (magneto-hydrodynamics) appear to offer bright prospects for further economies in power production.

Its Investment Status

American Electric Power's common stock ranks high among blue chip equities. It is listed among the so-called "favorite fifty" stocks most widely held by investment trusts. Insurance companies, pension funds and trusts of all types include this stock among their holdings.

While much smaller than American Telephone & Telegraph Company, American Electric Power Company's stock has been compared with Telephone stock. Actually, in market performance over the past decade, AEP has risen about 3½ times since 1950 while Telephone has doubled. One of the practical advantages of AEP is that its payroll plus employee benefits amounts to only about a quarter of its gross operating revenues.

In the first nine months of 1960, when many leading industrial companies were reporting substantial gains in gross but declines in net income, it was noteworthy that AEP reported a 13.3% increase in net with only a 4.9% gain in gross revenues. Two new large and highly efficient generating units of 500,000 kw capacity each have come on the lines this year. These units are among the most efficient in the industry and should provide the basis for further operating economies.

In the meantime, the Company is proceeding to develop new demands for electric service through such pioneering projects as the heat pump. In 1959 more than 5,000 electrically heated homes were added to the System's lines, bringing the total up to 19,600 homes versus 14,266 electrically heated homes at the end of 1958.

American Electric Power Company is a public utility holding company, providing electric service through its wholly-owned operating subsidiaries,

including Appalachian Power Company, Indiana & Michigan Electric Company, Kentucky Power Company and Ohio Power Company in an integrated territory extending from southwestern Michigan across northeastern Indiana and central Ohio to the west end of West Virginia and into portions of Kentucky, Tennessee and Virginia.

The common stock of AEP is listed on the New York Stock Exchange where it has had a 1960 range of 59½-46⅞. At a recent price of 57½ the stock is selling at 23 times latest reported earnings of \$2.53 per share and provides a yield of about 3.2% on the basis of the \$1.88 current cash dividend rate.

★ **F. W. Woolworth Company**—For ten years Woolworth presented a picture of stability without growth as earnings during the 1949-58 period of fluctuated between a high point of \$3.83 per share achieved in 1949 and a low of \$2.78 in 1954. During this same period the price of the stock varied between 36 and 54, a range that would not seem unusual for a single year, let alone ten. The stock had merit as a defensive holding during periods of economic recession and was often suggested for this purpose. For example from the peak in the prosperous year 1957 to the 1958 low, Woolworth stock declined from 45 to 36, again a swing more typical of a normal year, while many high-grade industrials dropped from 30% to 50%.

Now prospects seem to have changed, and Woolworth appears to have (Please turn to page 468)

Balance Sheet Items

	American Electric Power Co. 9/30/1960	F. W. Woolworth Co. 12/31/1959
	(Millions)	
Common Stock and Surplus	\$ 473.3	\$372.4
No. of Common Shares Outstanding	21.3	9.7
Preferred Stock Stated Value	\$ 101.7 ¹	None
Long Term Debt	\$ 719.9	\$127.3
Cash & Marketable Securities	\$ 45.8	\$ 74.9
Inventories, Net	\$ 38.4 ²	\$159.0
Receivables, Net	\$ 27.0	\$ 5.1
Current Assets	\$ 113.4	\$244.3
Current Liabilities	\$ 132.6	\$ 82.4
Net Working Capital	—	\$161.9
Current Ratio (C.A. to C.L.)	—	2.9
Gross Property	\$1,719.3 ³	\$250.4
Reserve for Deprec. & Amort.	\$ 385.6	\$ 79.1
Total Assets	\$1,886.0	\$586.4
Book Value Per Common Share	\$ 24.67	\$105.81
Earnings Per Share 1959	\$ 2.30	\$ 4.03
Estimated Earnings Per Share 1960	\$ 2.53	\$ 4.30
Recent Price of Common Stock	57½	69
Price Earnings Ratio	23.0	16.0
1960 Dividend	\$ 1.88 ⁴	\$ 2.50
Dividend Yield	3.2%	3.7%

1—Subsidiary preferred stocks.

2—Material & supplies.

3—Original cost.

4—Latest 1960 rate; plus 2½% stock dividend payable 1/10/1961.



CONTRASTING PROSPECTS for the INDIVIDUAL MEAT PACKERS

— Looking to 1961

By RAYMOND E. CHRISTOPHER

FEW industries possessing so broad a market are as dependent on imponderables for the trend of their earnings as are the meat packers. High sales per share, very low profit margins (net income has averaged less than 1% of sales), a large investment in plant with resultant high fixed costs, and fluctuations in raw material supplies, all have combined to bring wide year to year swings in meat packing earnings.

Managements of the leading packers are, as a rule, very reluctant to predict even short term results except in the most general terms, and interim statements seldom fail to warn readers that first half results are not necessarily indicative of either full year sales or earnings. The wisdom of these cautionary notes was demonstrated during 1960 when on the bases of encouraging first half earnings and apparently favorable economic conditions invest-

ment analysts were in general agreement that most of the packers would score major gains in income during the year. A glance at the accompanying statistical tabulation will show that most of these expectations were disappointed. Armour, the sole packer to improve per share earnings, did so only because of a non-recurring capital gain.

At this time, however, in the light of cyclical changes and various new developments, I have reason to believe that 1961 and future years should see material improvement for this industry.

Livestock Supply at New High

Of immediate concern is the outlook for raw material supplies, i.e., the number of cattle, hogs, sheep, etc. brought to market. In the short run this is probably the most important determinant of packers' earnings. Although it is by no means an in-

fallible rule, in general packers' earnings rise when supplies are ample and fall when livestock are in short supply. Year to year differences in the amount of money spent for meat by consumers are minor. Consumers do allocate their spending according to the prevailing prices for the various types and cuts, purchasing in some years more beef, and in others more pork. All meat animals brought to market are slaughtered and within a relatively short time all meat is sold at some price. The cyclical pattern in the packing industry is, therefore, a result of changes in supply rather than of fluctuations in demand. Wholesale prices of dressed and processed meats are less volatile than are livestock prices. Increased offerings of meat animals usually result in lower costs and wider margins as livestock prices fall faster than do wholesale meat prices. Short supplies of livestock, on the other hand, tend to squeeze packers' margins as costs rise faster than product prices.

The current supply outlook is favorable to the packers. Cattle herds have increased in size for the past three years and are now at an all-time high of more than 100 million head. Slaughter is expected to rise by about 5% during 1961 and despite this increase in marketings, cattle numbers will continue to grow, assuring record beef supplies for several years ahead. The pressure of a higher volume of cattle reaching marketable weight should bring lower raw material costs and higher profit margins from beef operations.

Also working to the packers' advantage is the fact that most of the rise in this year's beef supply will be of intermediate and lower grades. In contrast to the top grades which are consumed in the form of roasts, steaks, etc., the lower grades of beef are often processed into meat specialties. The value added by further processing affords the packer an opportunity to obtain an additional profit.

Hog slaughter will be off somewhat during the first half of 1961 but, by mid-year, volume will pick up to about the 1960 level. Hog farrowings rose 2% in September-October 1960 and a Department of Agriculture survey shows that farmers intend to increase farrowing by 4% in December-February. As about six months are required to raise hogs to market weight, pork supplies should rise during the second half, bringing volume for the entire year moderately above 1960. Hog prices will be somewhat higher during the first half and then probably decline in the fall. Full year average prices are not expected to be much different from those that prevailed during 1960.

In recent years hog production has usually risen for two years before turning down. Actual results will depend on prices received by farmers as determined by the total volume of all livestock slaughtered, but should the two year upward phase of the pork cycle again be the rule, pork will be in ample supply well into 1962.

Diversification and New Activities

Many investors are unaware of the degree to which several of the packers have diversified operations. All, of course, are concerned with the numerous non-meat by-products that result from livestock slaughter. In fact, by-product prices often determine profits as dressed meat is frequently worth no more

than the packer paid for the animal from which it was obtained. Several packers receive substantial income from activities unrelated to meat operations. **Armour** in recent years obtained a majority of earnings from its chemical division. **Swift's** non-meat divisions, while dwarfed by its meat operation, comprise a sizable business with sales running to \$700 million or more. Some indication of the range of diversification within this industry will be found in the individual company comments.

Four years ago **Swift**, **Armour** and **Cudahy** brought suit to set aside the 1920 consent decree that prohibits them from handling a wide line of food and non-food items or from selling meat at retail. **Wilson**, which did not take part in the action, is also bound by the decree. On December 12, 1960 the Federal District Court rejected the packers' plea, granting relief from none of the decree's provisions. Presently it is uncertain what further legal steps the packers might take. Should the ruling of the District Court eventually be reversed, the opportunity to make fuller use of distribution facilities would lead to wider profit margins and a mitigation of the impact of the livestock cycle.

● While blocked for the time being at least from broadening activities along the lines just mentioned, the packers have taken other steps to upgrade operations. One of the more important is emphasis on processed and prepackaged meats which afford wider margins than can be obtained from simple dressed cuts. Several packers process frozen cooked meats and entire meals designed both for institutional and home consumption. **Wilson** has been particularly active in the institutional field, standing ready to supply restaurants and other institutions with special heating equipment for use in the preparation of its frozen meals.

● Packers have begun supplying retailers with labels identifying the source of packaged fresh meat in an attempt to build brand awareness among consumers. New methods of preserving meat, while not wholly successful yet, give some promise of less expensive storage and transportation charges sometime in the future. **Swift** has developed a method of tenderizing beef by injecting cattle with an enzyme shortly before slaughter. Beef so treated will be advertised and sold under a special brand name.

No one of these developments is of particular importance in itself. However, they indicate an awareness on management's part of the necessity to put operations on a more profitable basis.

Important Savings from Elimination of Obsolete Plant

The packers are now midway in a program of plant modernization that has already brought a substantial reduction in operating costs and which will, upon completion, have even more far-reaching effects. Only a few years ago the industry was burdened with old, inefficient plants, some constructed around the turn of the century or earlier. Even worse, these plants were for the most part located in Chicago and other metropolitan centers where wages and tax rates were highest. Except in periods of peak livestock marketing, capacity was excessive and fixed plant costs including depreciation, maintenance and real estate taxes bulked large. These high fixed costs, which had to be met regardless of volume, exaggerated the influence of the livestock

Statistical Data on Leading Meat Packers

	Net Sales		Earnings Per Share		Net Profit Margin		Cash Earnings Per Share 1960	Indic. 1960 Div.	Price Range 1959-60	Recent Price	Div. Yield
	1959	1960	1959	1960	1959	1960					
	(Millions)										
Armour & Co.....	\$1,869.8 ¹	\$ N.A.	\$2.73 ¹	\$3.10 ¹	.7%	N.A. %	\$ N.A.	\$1.40 ⁶	42½-21½	40	3.5%
Cudahy Packing.....	354.1 ¹	340.9 ¹	1.43	.24	.7	.2	1.72	—	17½- 8½	9	—
Hormel, G. A. & Co.	401.7 ¹	372.2 ¹	5.11	4.03	1.4	1.2	5.90	1.40	45½-26½	33	4.2
Hygrade Food Products	414.2 ¹	417.0	4.50	3.54	.6	.6	6.36	1.00 ⁷	37 -22½	29	3.4
International Packers	400.2 ²	197.9 ⁵	3.11 ³	1.01 ⁵	2.0 ⁴	N.A.	3.61 ⁴	.70	24½-12½	16	4.3
Morrell, John & Co.	436.3 ¹	511.8	5.68	3.17	1.4	1.7	6.04	.80 ⁷	59½-19	33	2.3
Swift & Co.	2,475.5 ¹	2,442.5	3.20	3.09	.7	.7	6.72	1.85	51½-35	46	4.0
Wilson & Co.	655.5 ¹	N.A.	3.88	.53	1.4	N.A.	N.A.	1.60	45½-32½	43	3.7

N.A.—Not available.

¹—Fiscal year ended Oct. 31.

²—Consol. basis; Parent Co. sales were \$66.3 million.

³—Consol. basis; Parent Co. earnings \$1.30 per share.

⁴—Consol. basis, 1959.

⁵—6 months ended 6/30/1960 on consol. basis.

⁶—Plus ¼ share of Int. Packers Co. Ltd.

⁷—Plus stock.

cycle. When supplies were ample, not only was the spread between product prices and livestock prices wider, but plant expenses were distributed over larger unit volume. When supplies contracted, plant expenses went relentlessly on and earnings suffered. Management often compounded the difficulty by bidding up the price of livestock in short supply in order to obtain maximum use of existing facilities. Packers conducted a considerable amount of business at little or no profit. In short, meat packing was a feast or famine industry.

Actions taken during the last few years have gone a long way toward correcting these conditions. Redundant plants have been eliminated and obsolete facilities replaced with up-to-date units. There has been a general exodus from Chicago as packers relocated processing facilities in smaller communities situated nearer the livestock raising areas. The growing importance of supermarket chains with their centralized buying, and improvements in shipping methods eliminated much of the need for local storage space. As a consequence, extensive networks of branch houses (a sort of local warehouse), set up when independent meat markets were the principal customers and long distance transportation was almost exclusively by rail, are being curtailed.

The industry still has some way to go in modernizing plant and operations. However, the improved tone of earnings shown by Wilson, Armour and Cudahy is indicative of the benefits received thus far. Major additional improvement can be expected in future years as the program continues. Completion may well result not only in lower operating expenses but in a lessening of the effect of fluctuations in livestock supply on earnings.

In Sum

● Meat packers are going through a period of basic change in their methods of operation. In time they may be able to widen margins substantially and report consistently higher earnings than have been the case in past years. Elimination of excess capacity should permit a better return on capital. If the industry is successful in these efforts investors may value packing stocks at higher price earnings ratios in the future. However, this is by no means assured. Operations are not yet immune to the livestock cycle, as was demonstrated by the second half of fiscal 1960.

The industry can hardly be said to have attained investment standing and prospective purchasers of meat packing equities should realize that compared with, say, medium grade utilities or retail issues the packing stocks are still highly speculative. Sometime after 1962 there is going to be a downturn in the cattle cycle. How the industry copes with conditions then may show to what extent it deserves to be accorded higher investment stature.

Swift & Company is the world's largest packer, with meat operations accounting for about 70% of sales. The remaining 30% include agricultural chemicals, vegetable oil seeds, livestock and poultry feeds, ice cream, cheese, poultry and insurance.

Swift is generally considered the quality issue among the packers with a long record of consistently profitable operations and a dividend record that was interrupted only once in this century. Partly because of a later start and partly because of its great size this company has been somewhat slower to adjust to changed industry conditions. However, considerable progress has been made in the last few years and further improvement may be expected in the future. Recently Swift announced that it may raise up to \$35 million in new capital through a convertible debenture issue. Proceeds would be used for expansion. Last year's earnings were off slightly despite the aid of an accounting change which added \$0.13 per share. More abundant livestock supplies should bring substantial improvement in 1961.

While Armour & Company is the second largest packer, it currently derives less than half of earnings from its Food Division which deals in vegetable oils, dairy products and poultry in addition to red meat. The majority of earnings—approximately 60% of 1959 pretax income—is contributed by Armour Chemical Industries, engaged in the manufacture of soap, pharmaceuticals, fertilizer, abrasives and various chemicals among other products. Meat operations accounting for some 80% of volume have been even more marginal than for the average packer and did in fact result in a small annual loss during the ten years 1947-57. More recently there has been a change in management outlook with emphasis in meat operations placed on profits rather than volume, as evidenced by the elimination of inefficient and redundant plant. Expansion of non-food operations has continued.

Last year's earnings, (Please turn to page 466)



FOR PROFIT AND INCOME

Defensive?

Once upon a time in top favor with institutional investors, issues of leading oil companies were called "growth stocks"—also "inflation hedges." Now we note a tendency among some market letter writers to call them "defensive stocks." They surely are not growth stocks, since peak earnings in most cases were attained anywhere from five to ten years ago. As they have lagged behind the market on balance since mid-1957, they have not worked out as inflation hedges. The basis for calling them defensive stocks is that earnings, now improving moder-

ately, appear unlikely to change widely either way within the presently foreseeable future; that valuations are moderate in a range of 10 to 15 times earnings in most cases; that dividends are generally secure and current yields fairly good. However, with basic supply excessive and domestic consumption in only a slow uptrend, maintenance of present earnings, let alone some 1961 betterment of them, hinges on continuing adequate restraint in refinery output, especially of gasoline in which there is threat of increased over-supply by Spring. So 1961 profit prospects are not too clear. However, based

on present earnings, valuations, yields and technical market indications, a few of the various issues which might well work higher are Atlantic Refining, Shamrock Oil & Gas, Standard Oil (Indiana) and Standard Oil of Ohio.

Inside the Market

At this writing, over-all year-end strength and numerous cross-currents in the market are the usual rule. So no great significance attaches to them. So far as group variations are concerned, the same is true of early-January performance since many stocks can have purely technical rallies on relief from tax-selling pressure. Thus, citation of current cross-currents could be of limited usefulness beyond noting extension of persistent investment demand for most income-stock groups, including electric utilities, natural gas distributors and pipe lines, biscuit bakers, confectionery, dairy products, and finance companies. Otherwise, groups meeting better than average demand at the moment are containers, metal fabricating,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Chicago Pneumatic Tool	9 mos. Sept. 30	\$1.57	\$1.44
Cincinnati Milling Machine	16 weeks Oct. 8	.48	.28
General Precision Equipment	Quar. Sept. 30	.71	.57
Hershey Chocolate Corp.	9 mos. Sept. 30	5.74	4.76
Alum'nium, Ltd.	Quar. Sept. 30	.33	.15
Champion Spark Plug	9 mos. Sept. 30	2.13	2.03
Decca Records, Inc.	9 mos. Sept. 30	3.24	.60
Pitney-Bowes	Quar. Sept. 30	.33	.24
Bristol-Myers Co.	Quar. Sept. 30	.53	.44
Gerber Products	6 mos. Sept. 30	1.82	1.73

mail order stocks, office equipment, oils, railroad equipment, sugar and sulphur. Some lagging groups at this time are: aircraft, air transport, aluminum, automobiles, auto parts, building materials, chemicals, department stores, steel, and television-electronics.

Too High?

Biggest of all retailers, Sears, Roebuck has a good name and a good reputation—but how much weight should be given to them in stock valuation as compared with the rate of growth in profits? The latter has slowed under increasing competition. Moreover, Sears is too big to permit more than sluggish earnings growth under average conditions. Profit for the fiscal year ending January 31 may be around \$2.45 a share, off from 1959's \$2.64. That would pare the average five-year growth rate to less than 3% a year and the total growth since 1950 to less than 25%. That is less than compounded interest return on Government bonds. Around 57, the stock is selling close to 20 times earnings and yielding less than 2.5% on a \$1.40 dividend basis, including a \$0.20 year-end extra. It has had a major rise to a level well over double its 1957 low. It is popular and widely held. We will not invite controversy by saying it should be sold. Put it this way: the issue appears amply priced and unpromising for appreciation in 1961.

Continental Insurance

Recommended here earlier at lower levels, this stock has risen out of the moderate trading range maintained for some months, recently getting to a new 1960 high of 59 $\frac{5}{8}$ and to within a fraction of its 1959 all-time high. Currently at 57, it is still a

relatively good value, with possibilities for working up to the 70-80 range during 1961. With subsidiaries, the company is largest in the casualty-fire insurance field. Due partly to hurricane Donna, underwriting losses continued in 1960 and probably were little under 1959's \$1.68 a share on a consolidated basis. Gradually rising investment income, the source of dividends, is around \$3.75 a share. The basic cycle in insurance underwriting is toward better results due to higher rates, more careful screening of automobile risks accepted and other tightening-up moves. Hence, the odds favor underwriting profit in 1961. It could well mean combined earnings in the general area of \$4.00 to \$5.00 a share, against \$2.00 or so estimated for 1960, up modestly from 1959's \$1.78. Policy is liberal, as indicated by a recent boost in the dividend rate from \$2.00 to \$2.20 on top of a number of earlier increases, a 10% stock extra in 1959 and a 2-for-1 split in 1956. Finances are impregnable. Profit improvement this year, barring big disasters affecting underwriting, could readily bring a further dividend boost. Currently yielding over 3.8%, the stock is reasonably priced on indicated potentials.

Inflated

Among the various market fads of 1960, that of stocks of companies making and/or distributing merchandise—mainly soft drinks, cigarettes, etc.—in vending machines ranks among the most absurd. It was never reasonable to suppose that there could be any bonanza in this "small-change" business. Yet the stocks "went to town." For example, earnings of Automatic Canteen, about doubled in five

years, reached \$0.91 a share in the fiscal year ended September 30, 1959. Reflecting expansion costs and issuance of additional shares, they are estimated around \$0.75-\$0.80 a share for the 1960 fiscal year and they will do well to approximate fiscal-1959 profit this year. Thus, at the stock's 1959 high of 52 $\frac{1}{8}$, it sold around 57 times 1959 earnings and 65 times fiscal-1960 earnings. It is now off to 37, but that is around 40 times likely current-year earnings and the yield on a \$0.60 dividend basis is less than 1.7%. In our view the stock would be no bargain even at 30 times earnings. How silly can speculative investors get?

High Yields

If you want high yield, without risk but also with below-average potentials for appreciation, it can be had. Here are a few examples, with current rates of return: Melville Shoe 5.3%, Lorillard 5.4%, Kresge 5.7%, U. S. Tobacco 5.7%, and American Snuff 5.2%.

Strong Stocks

Stock performing well at this time include: American Distilling, American Natural Gas, American Telephone, Atlantic Refining, Bristol-Myers, Bormon Food Stores, Brunswick Corp., Columbia Gas, Consolidated Edison, CIT Financial, Continental Baking, Freeport Sulphur, Illinois Power, International Telephone & Telegraph, International Business Machines, Kerr McGee, McGraw-Hill, Melville Shoe, Mercantile Stores, Pacific Gas & Electric, Potomac Electric, Public Service of Colorado, Standard Oil (Indiana) and Sterling Drug.

Weak Stocks

Current behavior of the following stocks is unimpressive: American Export, American Metal Products, American Motors, American Steel Foundry, Anaconda, Atlas Corp. Bohn Aluminum, Bullard, Burlington Industries, Chrysler, Cone Mills, Congoleum, Diana Stores, Evans Products, Gabriel, General Motors, General Electric, Hercules Motor, Sheller Mfg., Continental Motors, International Shoe, National Airlines, Pfizer, Philco, Rohm & Haas, Waldorf System and Wheeling Steel. END

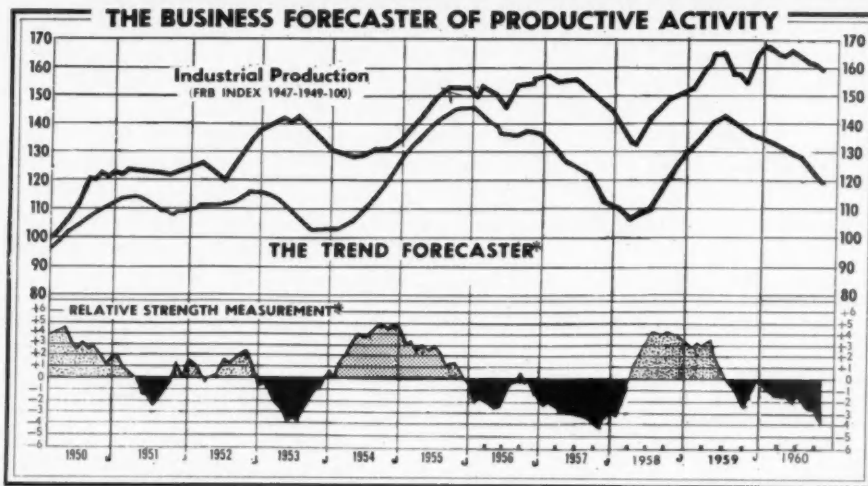
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Raybestos-Manhattan	9 mos. Sept. 30	\$3.20	\$4.40
Ryder System	Quar. Sept. 30	.19	.39
I.T.E. Circuit Breaker	9 mos. Sept. 30	.08	1.49
Philco Corp.	9 mos. Sept. 30	.45	1.00
American Machine & Metals	Quar. Sept. 30	.35	.79
Dover Corp.	Quar. Sept. 30	.32	.72
Curtiss-Wright	Quar. Sept. 30	.21	.36
Pan American World Airways	Quar. Sept. 30	.75	.86
United Aircraft Corp.	Quar. Sept. 30	.07	1.10
Admiral Corp.	9 mos. Sept. 30	.21	.99

the Business A

Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

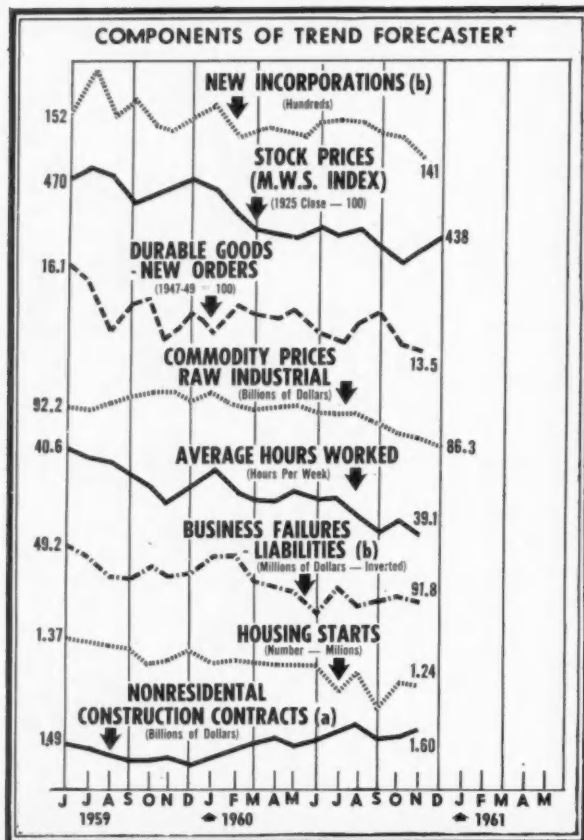
The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our *Business Trend Forecaster* of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the final quarter of 1960, the eight indicators comprising the *Trend Forecaster* continued to weaken. New incorporations drifted down, as did raw industrial commodity prices. Durable goods orders also subsided. Average hours of work and the liabilities of business failures (inverted), after improving slightly in October, declined again in November, and preliminary indications suggest further declines in December. Stock prices firmed after reaching a low in October. Housing starts fluctuated irregularly, while non-residential construction contract awards rose somewhat.

By late in the year, the *Relative Strength Measurement* was sharply negative, strongly suggesting that cyclical decline in business conditions was continuing into 1961. It may be noteworthy, however, that the rates of decline in several of the series have been moderate. While the summarization of the *direction* of the indicators points to further recession, the slow rate of decline in the indicators themselves is consistent with expectations, now widely held, that the recession will not be very severe.



(†) — Seasonally adjusted except stock and commodity prices.

(a) — Computed from F. W. Dodge data.

(b) — Computed from Dun & Bradstreet data.

s Analyst

CONCLUSIONS IN BRIEF

PRODUCTION—the moderate decline of the last half of 1960 is still in progress, centered now in machinery and automobiles. A slow further decline in general production rates is probable for the next three months, as output of end products subsides; output of raw materials has already had a substantial correction.

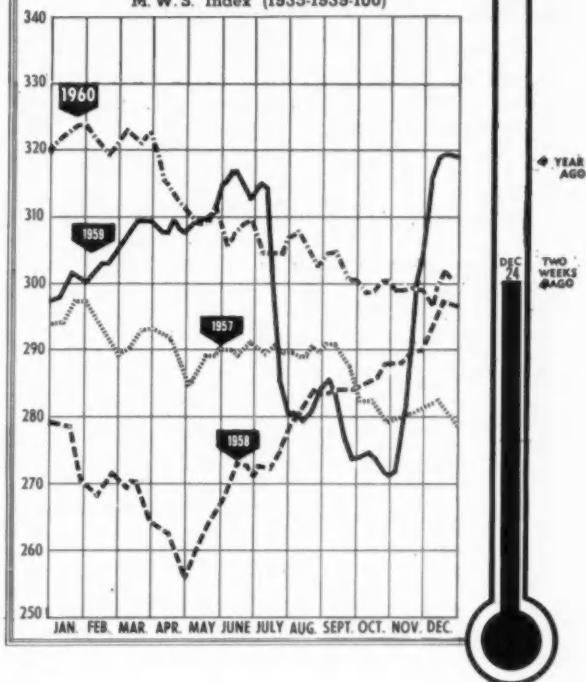
TRADE—Retail volume in December considerably exceeded a year ago, but on a seasonally adjusted basis fell short of October and November. Trade outlook; mild further weakness in first quarter, mainly in hard goods.

MONEY & CREDIT—long-term money rates have eased further, as demand for funds continues weak. Some further decline in the interest rate structure seems increasingly probable for the next three months.

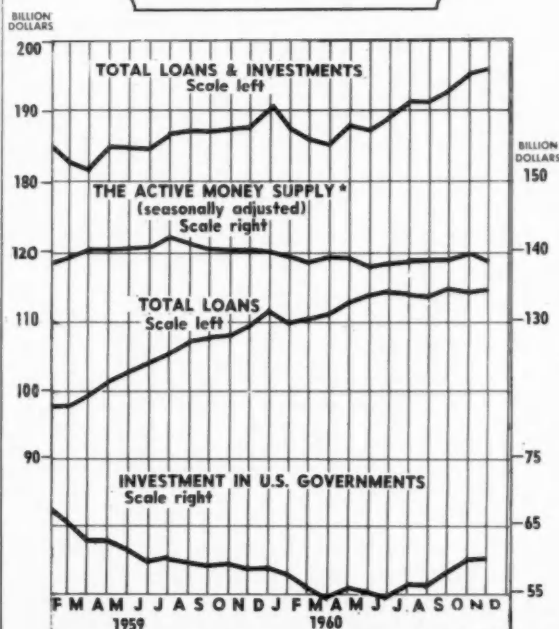
COMMODITIES—reports of intense price competition and slowly declining finished goods prices are still widespread. In recent weeks, warehouse prices on many steel specialties have been reduced. Price weakness based on ample supply and hesitant demand likely to continue throughout first quarter.

BUSINESS ACTIVITY

M. W. S. Index (1935-1939-100)



MONEY AND BANK CREDIT* (All Commercial Banks)



*Demand deposits of all banks plus currency outside the banks.

THE new year, and the new Administration, have begun with the fact of business recession. According to close students of business cycles, the onset of recession can be dated back as far as May of 1960, although its more palpable symptoms seem to have appeared in the late summer or early fall, when noteworthy weakness began in both the automobile and the capital goods market. Since that time, defense orders have poured out of the Pentagon in unaccustomed abundance and the automobile market strengthened temporarily, but it is hard to argue with the conclusion that recession has continued to spread and deepen in the last few months of 1960.

Paramount among the indicators of business recession is the unemployment rate, which in recent months has been clinging at about 6.4% of the civilian labor force. Unemployment normally rises in the early months of the calendar year, as weather in many parts of the country becomes unsuitable for outdoor activities. By the end of February, total unemployment could thus be approaching 6 million.

At the same time, the rate of reduction in business inventories in the first quarter of the year may be extremely high. It has already become very high in raw materials stocks; finished goods stocks may well be in a downtrend by now. Finally, automobile inventories of retail dealers, which normally rise during the early months of the year as new models are stocked, are almost certain to be no more than stable in early 1961, since their level is al-

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND		Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)		1947-'9-100	Nov.	159	162	156
Durable Goods Mfr.		1947-'9-100	Nov.	161	165	156
Nondurable Goods Mfr.		1947-'9-100	Nov.	158	159	157
Mining		1947-'9-100	Nov.	126	126	126
RETAIL SALES*		\$ Billions	Nov.	18.6	18.1	17.8
Durable Goods		\$ Billions	Nov.	6.0	6.1	5.7
Nondurable Goods		\$ Billions	Nov.	12.5	12.4	12.2
Dept. Store Sales		1947-'9-100	Nov.	144	150	146
MANUFACTURERS'						
New Orders—Total*		\$ Billions	Nov.	29.0	29.2	29.2
Durable Goods		\$ Billions	Nov.	13.5	13.7	13.7
Nondurable Goods		\$ Billions	Nov.	15.5	15.5	15.5
Shipments*		\$ Billions	Nov.	29.2	29.6	29.0
Durable Goods		\$ Billions	Nov.	13.8	14.1	13.5
Nondurable Goods		\$ Billions	Nov.	15.5	15.5	15.5
BUSINESS INVENTORIES, END. MO.*		\$ Billions	Nov.	92.8	92.9	88.4
Manufacturers'		\$ Billions	Nov.	54.1	54.4	51.6
Wholesalers'		\$ Billions	Nov.	13.2	13.2	12.6
Retailers'		\$ Billions	Nov.	25.6	25.4	24.2
Dept. Store Stocks		1947-'9-100	Oct.	167	168	158
CONSTRUCTION TOTAL—t		\$ Billions	Nov.	55.3	54.8	54.3
Private		\$ Billions	Nov.	38.4	38.4	39.6
Residential		\$ Billions	Nov.	21.2	21.1	24.0
All Other		\$ Billions	Nov.	17.2	17.3	15.6
Housing Starts*—a		Thousands	Nov.	1235	1253	1356
Contract Awards, Residential—b		\$ Millions	Nov.	1253	1390	1092
All Other—b		\$ Millions	Nov.	1633	1929	1280
EMPLOYMENT						
Total Civilian		Millions	Nov.	67.2	67.5	65.6
Non-farm*		Millions	Nov.	52.9	53.0	52.5
Government*		Millions	Nov.	8.6	8.5	8.2
Trade*		Millions	Nov.	11.6	11.7	11.5
Factory*		Millions	Nov.	12.0	12.0	12.2
Hours Worked		Hours	Nov.	39.3	39.6	39.9
Hourly Earnings		Dollars	Nov.	2.31	2.30	2.23
Weekly Earnings		Dollars	Nov.	90.78	91.08	88.98
PERSONAL INCOME*		\$ Billions	Nov.	410	410	389
Wages & Salaries		\$ Billions	Nov.	274	275	261
Proprietors' Incomes		\$ Billions	Nov.	61	61	59
Interest & Dividends		\$ Billions	Nov.	42	42	38
Transfer Payments		\$ Billions	Nov.	30	30	28
Farm Income		\$ Billions	Nov.	17	17	15
CONSUMER PRICES		1947-'9-100	Oct.	127.3	126.8	125.5
Food		1947-'9-100	Oct.	120.9	120.2	118.4
Clothing		1947-'9-100	Oct.	111.0	110.5	109.4
Housing		1947-'9-100	Oct.	132.2	132.0	130.1
MONEY & CREDIT						
All Demand Deposits*		\$ Billions	Nov.	110.6	111.5	111.8
Bank Debits*—g		\$ Billions	Nov.	98.4	95.4	95.1
Business Loans Outstanding—c		\$ Billions	Nov.	32.8	32.5	32.8
Installment Credit Extended*		\$ Billions	Oct.	4.1	4.1	4.2
Installment Credit Repaid*		\$ Billions	Oct.	4.0	3.9	3.7
FEDERAL GOVERNMENT						
Budget Receipts		\$ Billions	Nov.	6.3	2.8	5.9
Budget Expenditures		\$ Billions	Nov.	6.8	6.8	6.6
Defense Expenditures		\$ Billions	Nov.	3.9	3.7	3.7
Surplus (Def) cum from 7/1		\$ Billions	Nov.	(5.7)	(5.2)	(6.4)

PRESENT POSITION AND OUTLOOK

ready exceptionally high.

In the next few months, the business analyst is thus likely to be treated to some very provocative statistical reading; high unemployment will be stimulating some very aggressive counter-cyclical talk (and perhaps some early action) in Washington, while a rapid rate of inventory run-offs is suggesting that business may soon be in a position to expand its ordering rate without any help from Washington. These signs and portents can, of course be misleading, and the short-term outlook for business conditions clearly suggests a further decline. But the actual mood of businessmen, and of investors as well, is already being influenced by the heady combination of stimulative attitudes in Washington, on the one hand, and rapid inventory-clearing on the other. The combination goes far toward explaining the cautiously optimistic way in which the stock market itself has been shrugging off some pretty bleak statistical news in recent months.

* * *

THE EXPORT BOOM — Among the most favorable of recent statistics has been the considerable expansion of U.S. exports, quarter by quarter, during 1960. On the basis of the most recent figures now available, U.S. exports in 1960 (excluding reexports) equalled about \$19.2 billion, approximately \$3 billion more than in 1959. Moreover, the uptrend was still in progress as late as October, when the rate of exports expanded 6% over September, after seasonal adjustment.

Imports, on the other hand, have been in a slow decline ever since late 1959. In early 1960, exports exceeded imports by only about \$1 billion a year; by late in 1960, the export surplus was running at close to \$6 billion a year.

Despite the improvement in the short-term or current account represented by the export surplus, the U.S. balance of payments in 1960 has continued unfavorable. In the third quarter, in fact, the deficit was at an annual rate of about \$4 billion. The international payments balance is thus hardly a solved problem. But the export surplus is

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960			1959
	Quarter III	Quarter II	Quarter I	Quarter III
GROSS NATIONAL PRODUCT	503.0	505.0	501.3	481.4
Personal Consumption	328.5	329.0	323.3	316.0
Private Domestic Invest.	70.5	75.5	79.3	67.5
Net Exports	3.5	2.0	1.2	-0.2
Government Purchases	100.5	98.6	97.5	98.1
Federal	52.5	51.7	51.8	53.6
State & Local	48.0	46.9	45.7	44.5
PERSONAL INCOME	408.0	404.2	396.2	384.8
Tax & Nontax Payments	50.5	49.9	49.2	46.3
Disposable Income	357.5	354.3	347.0	338.5
Consumption Expenditures	328.5	329.0	323.3	316.0
Personal Saving—d	29.0	25.2	23.7	22.5
CORPORATE PRE-TAX PROFITS		45.7	48.8	45.3
Corporate Taxes		22.3	23.8	22.3
Corporate Net Profit		23.4	25.0	22.9
Dividend Payments	14.0	13.9	13.9	13.6
Retained Earnings		9.5	11.1	9.3
PLANT & EQUIPMENT OUTLAYS	36.9	36.3	35.2	33.4

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 24	300.9	302.5	318.6
MWS Index—Per capita*	1935-'9-100	Dec. 24	216.0	217.1	233.0
Steel Production % cap.	% of Capacity	Dec. 31	39.4	46.5	96.3
Auto and Truck Production	Thousands	Dec. 31	111	142	137
Paperboard Production	Thousand Tons	Dec. 24	286	300	252
Paperboard New Orders	Thousand Tons	Dec. 24	255	247	198
Electric Power Output*	1947-'49-100	Dec. 24	276.7	276.3	258.3
Freight Carloadings	Thousand Cars	Dec. 24	468	486	469
Engineering Constr. Awards	\$ Millions	Dec. 28	300	444	191
Department Store Sales	1947-'9-100	Dec. 24	320	305	246
Demand Deposits—c	\$ Billions	Dec. 21	62.1	62.4	62.5
Business Failures—s	Number	Dec. 22	253	351	195

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960		1960		(Nov. 14, 1936 Cl.—100)	High	Low	Dec. 23	Dec. 30
	High	Low	Dec. 23	Dec. 30					
Composite Average	482.5	410.9	440.8	442.3	High Priced Stocks	299.9	262.7	284.0	285.8
					Low Priced Stocks	653.8	527.6	549.5	548.3
4 Agricultural Implements	437.3	346.4	389.7	385.4	5 Gold Mining	1206.1	810.8	1184.7	1094.6
3 Air Cond. ('53 Cl.—100)	130.1	105.8	123.7	123.7	4 Investment Trusts	170.6	136.5	141.6	139.9
9 Aircraft ('27 Cl.—100)	1116.1	861.9	1071.9	1071.9	3 Liquor ('27 Cl.—100)	1534.5	1098.2	1158.4	1173.4
7 Airlines ('27 Cl.—100)	1044.6	736.7	802.7	813.7	7 Machinery	512.8	402.9	481.4	486.7
4 Aluminum ('53 Cl.—100)	521.3	354.5	406.6	401.4	3 Mail Order	446.1	364.2	409.7	405.1
5 Amusements	311.7	209.3	311.7	309.4	4 Meat Packing	286.8	223.9	262.2	259.4
3 Automobile Accessories	531.1	401.0	406.4	406.4	4 Mt. Fabr. ('53 Cl.—100)	208.6	132.4	140.4	140.4
5 Automobiles	157.0	90.8	93.9	90.8L	9 Metals, Miscellaneous	399.1	313.3	335.7	335.7
3 Baking ('26 Cl.—100)	39.8	34.9	39.4	39.8	4 Paper	1237.1	867.3	982.1	982.1
4 Business Machines	1422.6	1159.1	1304.0	1304.0	16 Petroleum	736.9	609.0	706.8	714.3
6 Chemicals	809.6	657.3	745.5	745.5	4 Public Utilities	400.3	341.6	400.3	400.3
4 Coal Mining	36.0	27.2	27.9	28.9	6 Railroad Equipment	99.8	75.8	77.8	79.8
4 Communications	234.4	199.9	211.4	218.3	18 Railroads	70.1	49.9	51.2	51.9
9 Construction	169.2	143.3	165.8	169.2	3 Soft Drinks	944.6	690.3	915.5	937.3
5 Container	1064.7	824.6	876.8	866.4	11 Steel & Iron	464.9	325.4	330.1	339.4
5 Copper Mining	347.6	275.4	278.7	275.4	4 Sugar	100.9	63.0	69.5	68.5
2 Dairy Products	217.8	146.8	205.5	203.9	2 Sulphur	705.4	563.1	668.3	705.4H
5 Department Stores	156.7	135.2	151.0	151.0	11 TV & Electron. ('27—100) ...	119.4	86.8	97.7	96.6
5 Drugs-Eth. ('53 Cl.—100)	47.4	360.4	395.6	391.2	5 Textiles	233.0	183.3	192.1	194.3
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	344.0	344.0	3 Tires & Rubber	255.9	170.6	175.8	181.0
3 Finance Companies	802.7	648.8	796.0	802.7H	5 Tobacco	229.5	182.5	222.0	229.5H
5 Food Brands	579.9	419.3	566.5	557.6	3 Variety Stores	382.1	349.3	353.0	353.0
3 Food Stores	270.8	232.1	255.3	252.7	14 Unclasi'd ('49 Cl.—100) ...	295.1	224.0	234.5	234.5

H—New High for 1960.

PRESENT POSITION AND OUTLOOK

at least an indication that the U.S. has not been priced out of world markets, and that U.S. markets are not yet exactly easy pickings for foreign producers.

PRODUCTION TRENDS — As the new year starts, here's a roundup of output trends by major industry groups:

Automotive production is heading down, as assembly rates adjust to excessive inventories and a faltering sales rate. First-quarter passenger car output is expected to be about a quarter-million less than the approximately 1.7 million produced in the first quarter of 1960.

Machinery production is also declining gradually, as backlogs thin and orders continue to appear in disappointing volume. Foreign orders for machinery have held up much better than domestic orders, but they are not in sufficient quantity to maintain production rates.

Textile output fell notably in the last half of 1960, and is now at a much more conservative level. Only slight further decline now seems likely in early 1961.

Similarly, **building materials output** is already sharply reduced, (Please turn to page 470)

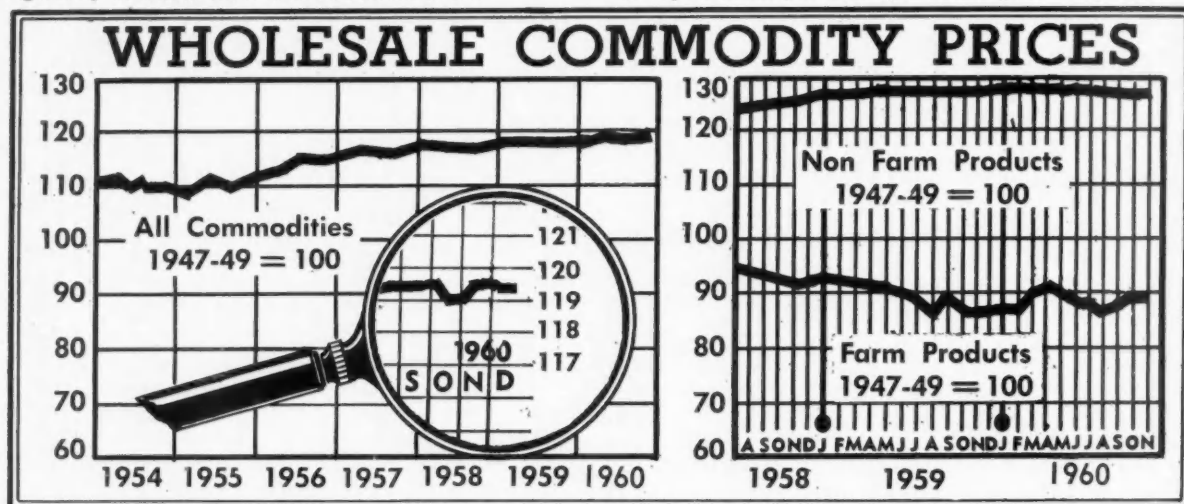
Trend of Commodities

SPOT MARKETS—Leading spot commodities were mixed in the two weeks ending December 30, but the size of gains for advancing commodities outweighed the extent of the declines. As a result, the BLS daily commodity index rose 0.3% during the period to close at 81.7. The raw foods component advanced 0.7% while the index of industrial raw materials was 0.1% higher. In the latter group, burlap, rubber and steel scrap all advanced, the last named scoring a gain of 7.7%. At the same time, copper scrap, hides, tin and zinc all receded.

Meanwhile, broad indexes of wholesale prices have shown little change in recent weeks, although there has been further price cutting of some finished goods. Stockpiles in this category are still high and producers are now moving vigorously to reduce them to more normal levels.

FUTURES MARKETS—Futures prices were mostly higher in the last two weeks of 1960, apparently on hopes that the new Administration is going to do something for the farmer and will act to spark the economy in general. Wheat, corn, oats, rye, soybeans, lard, cottonseed oil, coffee, hides, rubber and copper, all were higher in the period under review, while cotton, world sugar, cocoa and zinc, declined.

Wheat prices were strong in the two weeks ending December 30, with the May option gaining 2½ cents to close at 204½, not far from the 205½ life-of-the-option high, reached on December 23. Further gains may be harder to come by, however, because of large over-all supplies and the fact that most grades of wheat are selling well above the equivalent Government loan level. Political developments will play an important role, of course, in future price movements.



BLS PRICE INDEXES
1947-1949=100

	Date	Latest 2 Weeks	1 Yr. Ago	Dec. 6
		Date	Ago	1941
All Commodities	Dec. 20	119.5	119.5	118.9
Farm Products	Dec. 20	88.8	89.1	85.9
Non-Farm Products	Dec. 20	127.9	127.9	128.6
22 Sensitive Commodities ..	Dec. 30	81.7	81.4	83.0
9 Foods	Dec. 30	75.8	75.3	70.0
13 Raw Ind'l. Materials...	Dec. 30	85.9	85.8	93.3
5 Metals	Dec. 30	85.1	84.8	96.8
4 Textiles	Dec. 30	80.4	79.6	81.5

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE=100

AUG. 26, 1939=63.0 Dec. 6, 1941=85.0

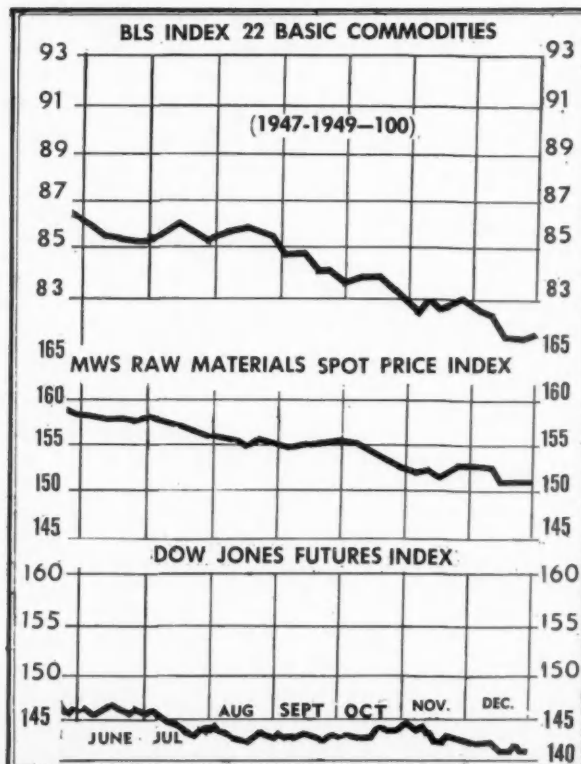
	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	151.1	152.1	147.9	176.4	74.3
Close of Year	158.3	152.1	180.8	83.5	

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926=100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	144.2	153.8	174.8	55.5
Close of Year	147.8	147.8	166.5	189.4	84.1





FIRST NATIONAL CITY BANK

Head Office: 55 Wall Street, New York

164 Branches, Offices and Affiliates Throughout the World
88 in Greater New York 76 in 29 Countries Overseas

Statement of Condition as of December 31, 1960

ASSETS

CASH AND DUE FROM BANKS	\$2,029,684,200
UNITED STATES GOVERNMENT OBLIGATIONS	1,454,447,284
STATE AND MUNICIPAL SECURITIES	487,817,205
OTHER SECURITIES	88,365,335
LOANS	4,254,929,949
CUSTOMERS' ACCEPTANCE LIABILITY	154,240,337
FEDERAL RESERVE BANK STOCK	18,744,000
INTERNATIONAL BANKING CORPORATION	7,000,000
BANK PREMISES, FURNITURE AND EQUIPMENT	104,523,900
ITEMS IN TRANSIT WITH OVERSEAS BRANCHES	57,810,063
OTHER ASSETS	10,866,947
<i>Total</i>	<u>\$8,668,429,220</u>

LIABILITIES

DEPOSITS	\$7,641,524,475
LIABILITY ON ACCEPTANCES	159,542,239
FOREIGN FUNDS BORROWED	629,300

RESERVES:

UNEARNED INCOME	39,856,173
TAXES AND ACCRUED EXPENSES	59,664,188
DIVIDEND	1,836,000

SHAREHOLDERS' EQUITY:

CAPITAL	\$244,800,000
(12,240,000 Shares—\$20 Par)	
SURPLUS	380,000,000
UNDIVIDED PROFITS	140,576,845
<i>Total</i>	<u>765,376,845</u>
	<u>\$8,668,429,220</u>

Figures of Overseas Branches are as of December 23.

United States Government Obligations and other assets carried at \$593,081,935 are pledged to secure Public and Trust Deposits and for other purposes required or permitted by law.

Member Federal Deposit Insurance Corporation

FIRST NATIONAL CITY TRUST COMPANY

Head Office: 22 William Street, New York

Affiliate of First National City Bank for separate administration of trust functions

Capital Funds \$24,660,916

We shall be glad to send, upon request, a copy of our 1960 Report to the Shareholders

DIRECTORS

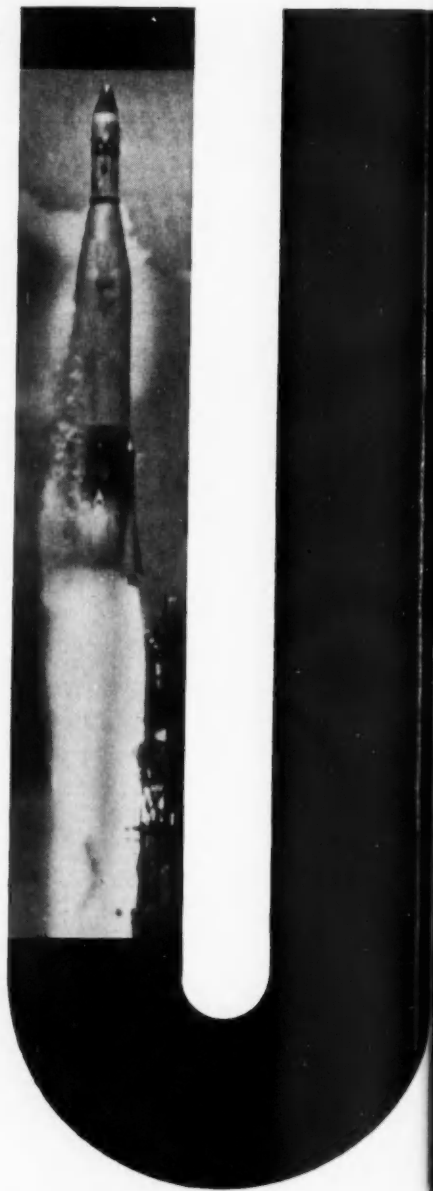
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M

1961 Outlook Varies For Major Industries

(Continued from page 429)

fields, are ready to give total sales a lift; and the constant drive for better packaging materials made from chemicals has all the earmarks of a minor boom for many companies in the field.

For investors, commitments should still be avoided in all but the highest quality chemical companies. Yields are still pathetically low and prices could move lower before improvement sets in.

Construction Revival Expected Although Profits May Lag

New construction will be one of the bulwarks of the 1961 economy. Federal spending for highways will be augmented by huge outlays by states and local governments following the big bond issues that were approved by the electorate last November. Moreover, there are real signs that private building is about to turn upward again.

Building contracts awarded in November, 1960—the last reported figures—were 22% ahead of year-ago levels, narrowing the spread between outlays in the two years to less than one percent. It is possible, in fact, that with the aid of the December figure, the full 1960 year may equal, or even top, the 1959 figures. This late recovery augurs well for the opening of 1961.

Perhaps most encouraging is the 15% pickup in private residential building during November. Most of this was for apartment houses, rather than single dwelling units. But although there was some decline in housing starts, the drop was less than a year earlier.

For the building companies, however, 1961 will be another year in which profits will have to be earned the hard way. The combination of overcapacity and a weak price structure for most materials will continue to exert pressure on profit margins. Moreover, the sharper than expected earnings declines in 1960 put a deep crimp in the financial positions of many companies and will force them into heavier borrowings in the year ahead.

All in all, total new construc-

tion figures should top \$57 billion in 1961, especially if the new administration reactivates the interstate highway program. This total compares with approximately \$55 billion in 1960 and \$56 billion a year earlier.

Under the circumstances, although 1961 will not be a big earnings year, it should help the companies rebuild their financial positions and pave the way for a better 1962.

New Electric Equipment Record Expected

Total sales of electrical and electronic equipment climbed 6% in 1960 to a record \$9.2 billion. Another 6% rise, to about \$10.3 billion is expected in the year ahead.

The most important reason for this confident prediction is the strong military demand for all types of electronic equipment and the virtual certainty that the missile program will be stepped up even further under the Kennedy administration.

Significantly, however, the biggest jump in the use of electronic equipment during 1960 was on the part of private industry. Industrial products climbed 9%, compared to only 5% for consumer products and 6% for military components. Thus, in the year ahead, the drive on the part of industry to automate further and thus reduce its costs should lead to another advance for electronics sales to the private sector of the economy.

This is all to the good, as civilian sales must develop if the industry is ever to reach a significant level of profitability. For investors this is a vital problem, since most of the important stocks in the group sell at exorbitant prices in anticipation of earnings that have yet to materialize.

Moreover, if the industry is to take maximum advantage of the huge private market potential, it will have to hurry to forestall foreign producers, especially the Japanese and Germans, who are making serious threats to grab off a big piece of the American civilian market while the domestic companies are keeping their eyes glued to military contracts.

It is for this reason that we must continue to recommend a cautious approach to electrical equipment equities. A potential

for huge profitability can be recognized, but so far few companies have been able to generate consistently high profits. Moreover, too few appear to be paying enough attention to the industrial market where, in the long run, they must compete if they are to be successful.

1961 will again be a record year for the electrical industry, but the profits trends among the individual companies will be as mixed as ever.

Machine Tools To Lose Benefit of European Orders

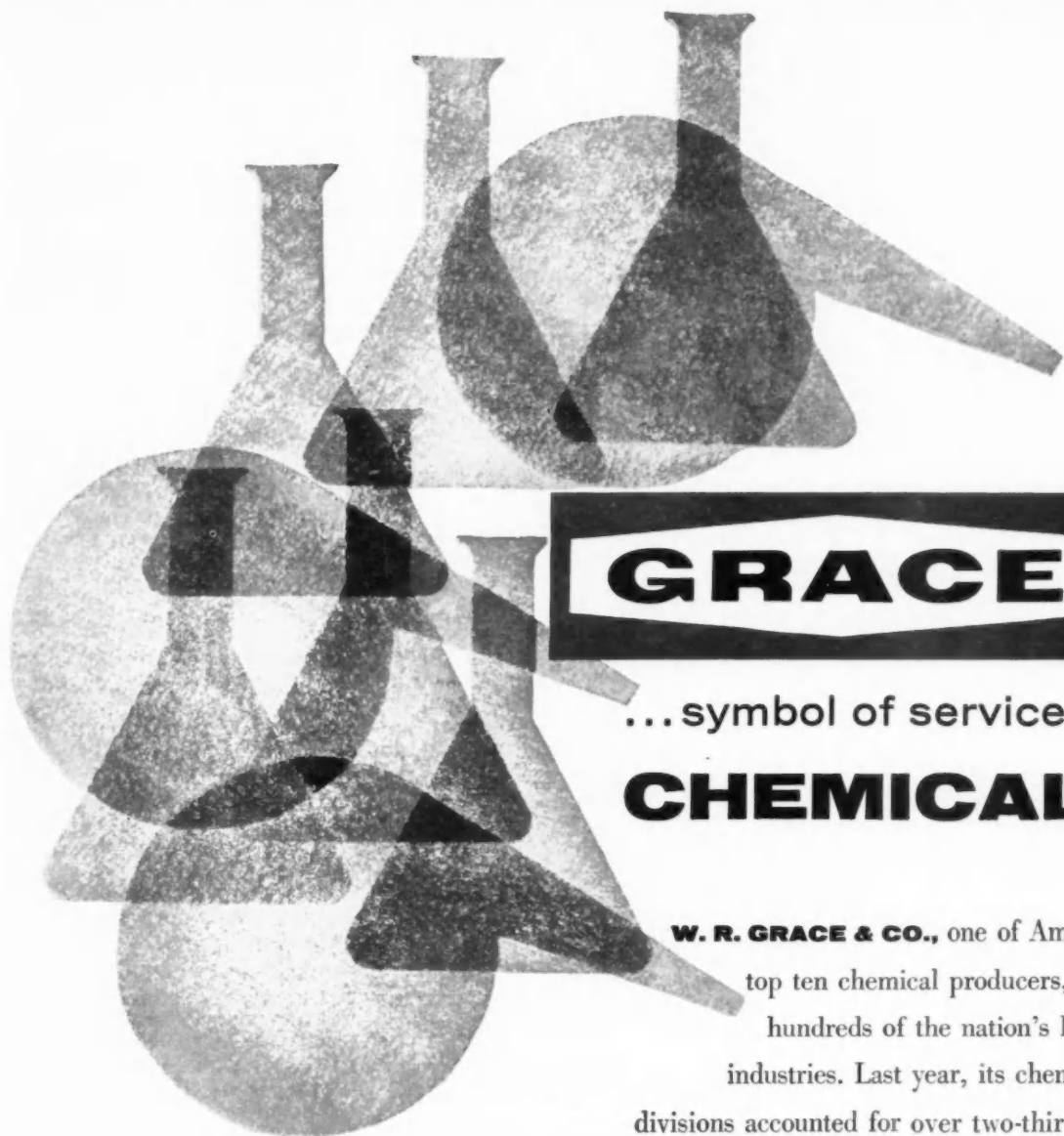
For all their difficulties, machine tool sales have held up better than expected in 1960. In large measure, however, the thanks are owed to European buyers who placed orders in the U. S. where they could get quick delivery from plants overloaded with idle capacity. Help in the form of new orders is welcome, of course regardless of the source, and foreign orders kept 1960 from being a disastrous year for the tool makers. In fact, total shipments for the year will be just under \$500 million, a substantial improvement over the \$413 million reported for 1959.

For 1961, however, the industry will have to look closer to home for most of its orders. The European economy, though still booming, shows signs of slowing down a bit. In addition, the feverish demand for high priced American tools has abated.

Under the circumstances, prospects are not too bright even if capital spending picks up substantially, later in the year, as it takes an extended period to fill orders for most tools. A real cyclical upturn may well develop by the beginning of 1962, but 1961 will be a relatively lean year.

On the favorable side however, several possibilities may be cited. With cost cutting now uppermost in many business executives' minds, a real upturn in spending for electronically controlled tools and machines could develop much sooner than expected. In fact many machinery companies report that in the last two months, inquiries about this kind of equipment have already picked up sharply.

In any event, periods of poor business are part of the normal
(Please turn to page 462)



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W. R. GRACE & CO., one of America's
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hundreds of the nation's leading
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game for the machinery companies, and most have the financial strength to weather far more severe cutbacks than anything we have seen so far. If the recession gets no worse the companies will be in good shape to take advantage of the recovery when it does set in.

For investors, however, a long wait must probably be endured before a substantial recovery in share prices takes place, unless some of the industry's diversified activities show signs of life by mid-year. In our regular coverage of this industry the outlook for these diversified activities is covered thoroughly. Hence, readers should be in a good position to spot an upturn for the companies long before their basic business begins to climb. END

The World Currency Outlook for 1961

(Continued from page 433)

in 1961, assuming no major political shifts take place.

Leading trouble areas in Asia are Laos, Viet Nam, Indonesia, South Korea and the perennial problem areas of India and Pakistan. Laos, in political and military turmoil, does not even have her currency listed for free market quotations in Hong Kong. Continued unrest is likely for the coming months. Viet Nam, too, has the same troubles, plagued by her communist border "neighbors." The currency unit, the piastre, fell to over 100 per dollar in unofficial quotations during December vs. 82.50 a year ago. Potential and actual internal and external political and military threats will keep the currency under pressure during the coming year and this area could erupt into a major trouble spot for the Free World. Indonesia and South Korea, both having had their currencies devalued in 1960, show recent nominal improvement but still face basic monetary troubles, with no genuine solutions in sight for 1961.

► **India and Pakistan** represent problems of broader implication. Their currency rates at 7.00 and 7.05 per dollar in free market listings are practically unchanged from a year ago, reflecting the persistence of the huge gap be-

tween the have and have-not countries. The one possibly far-reaching and very constructive event for 1960 was the agreement on the joint India-Pakistan Indus River development project, to the benefit of both countries. Especially in the case of India, huge foreign assistance programs will continue to be needed, in 1961 and later, for developmental purposes which themselves cannot be separated from the problem of Red China's growth as a world power.

Africa is one big area of trouble, monetary problems being only a minor aspect of the vast complex of political, economic, social and cold-war difficulties. **The outlook for 1961 is for more of the same**, with creation of a number of "regionalized" currency networks and the fall and rise of at least a few currency units. Specific projections in this area are practically worthless, being subject to so many unpredictable factors. ► **The Congo** remains in turmoil. ► **Katanga** province has its own new currency unit. Both monies are traded at 20% discounts, and more, from their official rates. **Ghana, Guinea and Mali** have recently announced a new union, "to promote a common economic and monetary policy." **Morocco** has its local economic troubles and the trend seems to be toward less U.S. aid and more Soviet influence. The dollar commands a premium of over 20% over the local currency, the dirham, in unofficial transactions. **South Africa's** monetary unit weathered a run on her reserves in 1960 and has recovered, but remains subject to racial and other strife in 1961.

The New Ruble Offensive

The Soviet bloc, led by the new "heavy" ruble, made further progress in 1960, despite specific troubles in Poland and a general agricultural problem, especially in Red China. Industrial output and external commercial advances have been made, and Soviet bloc economic influence has also been extended in Asia, Africa and Latin America. The January, 1961, introduction of the "new" ruble—which was devalued at the same time it became "hard" (as explained in previous issues of this Magazine) will probably lead to new alignments of Soviet orbit currencies with the ruble in 1961.

The group will have its trouble spots, such as Poland, Czechoslovakia and Hungary, however, seem likely to expand their economies and strengthen their currencies. **East Germany** will maintain her industrial importance and her ostmark, although listed at about 20% of the westmark's value, will again be one of the firmer monetary units of the bloc.

Other likely trends: further trade agreements with Western nations, especially in Europe; more such pacts with key areas of influence in Latin America, Asia and Africa; further moves to make the ruble more widely utilized in international trade and finance; and perhaps some unexpected monetary actions, somehow linked to the operations of existing international monetary organizations or economic blocs.

To Sum Up

1961 will be an eventful monetary year. More free world cooperation, insofar as interest rate policy and trade and capital movements are concerned, will be in evidence. The argument as to whether or not the present world payments mechanism is adequate for immediate and longer run needs and the question of international liquidity might well be the subjects of international conferences.

In any event, gold will probably be somewhat further de-emphasized as a monetary metal. ● International development agencies will play a more active part in lagging areas; the IMF will have its global role enhanced in importance. ● No adequate solution will be found, however, to close the gap between the haves and have-nots and to better redistribute international liquid resources. ● Problem currency areas will remain and new ones spring up. ● But with a common approach to rectifying the U.S. payments problem, some rapprochement between the Common Market and the Outer Seven in Europe and more coordination of free world monetary and exchange policies, some tangible accomplishments to promote the global development of trade and investment are in sight.

The Soviet group will certainly not diminish in importance and
(Continued on page 464)

CHESSIE'S NEW YEAR REPORT:

Chessie, with a good story to tell, once again is the only railroad to report on the year past to its shareowners and the public on the first working day of the New Year



➤ \$42 MILLION NET INCOME

C&O's net income in 1960 was \$42 million, equal to \$5.15 a common share. This was a healthy 12 per cent of gross revenues, despite generally higher costs. Working capital of \$63 million reached a new high for the third straight year, and the railroad was kept in tip-top physical condition.

C&O shareowners for the fourth consecutive year received a \$4 annual dividend. And Chessie employees received the highest average wage ever.

➤ C&O "Dividends" for B&O Shareowners

The first successful steps were taken in 1960 toward an event of historic significance — affiliation as a step to full merger as promptly as possible of the C&O and Baltimore and Ohio Railroad.

A majority of B&O shares — 55 per cent — were assented at year end to C&O's stock exchange offer. C&O's board of directors, considering that C&O had obtained this majority, and in the light of numerous requests from B&O shareowners, took these actions:

- So that assenting B&O shareowners might begin enjoying some of the prospective benefits of being C&O shareowners, the C&O will, effective January 1, 1961, accrue the difference between C&O's common dividend (currently \$4) and B&O's common dividend (currently 60 cents), after applying the exchange ratio.
- In order to give all B&O shareowners an opportunity to participate, further acceptances will be received through February 2.
- Elected that the exchange offer will become binding on C&O so long as the majority of B&O shares are assented at the close of a thirty-day withdrawal period, also ending February 2.

This dividend accrual by C&O would be for one year, but could be extended by C&O's Board. It is subject to the approval of the Interstate Commerce Commission and C&O shareowners. C&O has applied to the ICC for approval. If and when the ICC approves, actual payment will take place just as quickly as ICC authorization becomes effective and the exchange is made.

The B&O-C&O system will be America's second largest in revenues, with outstanding potential for growth. The public interest, so dependent on sound transportation, will be notably served by affiliation and merger.

Walter J. Suohy
President

Chesapeake and Ohio Railway

TERMINAL TOWER • CLEVELAND 1, OHIO

will continue to press for larger economic influence in all parts of the world. ● The trend towards a globe divided into numerically increased and more integrated "common market" blocs will continue. ● And finally, some more violent events of the currency world might well occur if the assumption that "no other major political, military or social changes take place" is incorrect in one or more cases, as will almost inevitably be the case. END

Will Railroads See Daylight in 1961?

(Continued from page 443)

new transportation concept.

Can The Railroads Become "Transportation Companies"?

Until about 1925 "the railroads" and "transportation" were, with the minor exception of Great Lakes and coastal steamships, synonymous terms. Since then the emergence of trucks and aviation, the construction of pipe lines and the restoration of the inland waterways have cut the railroads' share of our total national freight traffic to a trifle under 50%. The railroads nevertheless remain the only universal carriers, committed inescapably to the communities they serve, and unpampered by government.

● Every shipper is interested essentially in efficient and economical transportation, not in any rivalry between flanged wheel and rubber tire. Just as different railroads interchange cars freely among themselves, it would make sense if they could interchange shipments with other forms of transportation. **Going one step further, they could often offer a more efficient service if they operated or controlled truck lines and barge routes in their respective territories. In brief, this would be a return to the original concept of overall transportation service.**

● This idea is not new; many railroads were, in fact, pioneers in the development of other modes of transportation. Several roads control truck lines with "grandfather rights" (rights to established highway routes predating the Motor Carrier Act of 1935), and many of the regional

bus lines later taken over by Greyhound were started by the railroads. The Pennsylvania Railroad was even, as probably few remember, one of the founding parents of TWA. And, at one time, railroad-owned steamship lines were commonplace.

But sometimes voluntarily, sometimes as a result of coercive legislation, the railroads abandoned most of these affiliations. Within the last few years, however, some of them have shown a desire to re-establish themselves as general transportation companies. Thus, C. & O. has acquired its minority interest in Slick Airways while Southern Pacific has created its pipeline division. More commonly, however, railroads want to operate affiliated trucking lines.

While the truckers will naturally raise the old cry of "monopoly" as the railroads strive to regain some of their lost traffic, a broader point of view may eventually allow the railroads to re-establish their former role as general transportation companies.

Vast Scope for Technological Improvement

It cannot be denied that the railroads have lagged in technical progress. The bystander who wanders down to his local station will still see **Railway Express** shipments being loaded laboriously by hand, exactly the same way as in 1880, and drawn to train-side in little wagons where the process will then be inefficiently repeated. But, in less visible fashion, significant improvements have crept in. CTC, or remote control of trains, with dispatching and protection merged into a single process, is now commonplace. Within a few more years fully automatic yards will cease to be novelties, and should slash the vexatious terminal delays that are primarily responsible for poor freight schedules. Radio communication between dispatcher and trains, and between head and rear ends of trains, is becoming the rule more than the exception.

Automatic trainstops ("continuous inductive train control") are already relatively old devices. Such equipment would make one-man-in-the-cab operation entirely safe, preventing such a tragedy as the Newark Bay disaster,

which the presence of a "fireman" did nothing to avoid.

It should not be forgotten that the railroads, second only to pipe lines, are the form of modern transportation most adaptable to automation. In the course of time, two revolutionary improvements may change the railroad outlook entirely; these are automatic, crewless trains, and some mechanism for conducting individual freight cars to outlying sidings, eliminating engine movements. The first of these, a crewless train, is scheduled to be introduced in the New York subways in the early future, if the unions are unable to interfere.

One conspicuous example of improved office procedure is provided by the Chesapeake & Ohio Ry., which now publishes its monthly income statements the *first day after the end of each month*. The extension of similar methods to all the complicated tasks of computing rates, figuring divisions and directing traffic could work a miracle on the railroads.

The opportunities in mergers were discussed in detail in the November 19 issue of this Magazine. Suffice it to say here that the merger trend should accelerate during 1961 and the eventual economies could be enormous.

Traffic Forecast

The outlook for 1961 traffic, at least in the early part of the year, is not favorable. The Shippers' Advisory Board has already, in fact, predicted a drop of 5.1% in loadings for the first quarter. This reflects an anticipated sharp decline in iron and steel shipments, which were somewhat accelerated immediately following the strike a year ago, and a 16% reduction in auto movements.

The second quarter should look better on a year-to-year basis, but otherwise is still likely to be unsatisfactory. Beyond that, loadings will depend upon the trend in the general economy. It seems probable that some mild full-year improvement over unsatisfactory 1960 will be registered, but really substantial traffic gains cannot be expected this year.

What to Look For Among Railroads

Since space will not permit a
(Continued on page 466)

GROWTH



New Jersey's population of 6,066,782, according to the 1960 Census, shows a growth of 1,231,453 over the 4,835,329 counted in 1950, or an increase of 25.5%. Gainful employment increased from approximately 1,600,000 to 2,000,000 or about 25%.

Revenues of Public Service Electric and Gas Company, serving electricity or gas, or both, in communities with nearly 80% of the state's population, increased during that period from \$186,000,000 to \$395,000,000*, or 112%.

During the ten-year interval the Company has spent \$1,042,000,000 for new facilities to keep ahead of the demand for those twin servants of Man — Electricity and Gas.

Those prognosticators of the fu-

ture — such as the Regional Plan Association — tell us that the state can expect even greater growth. For instance, Regional Plan estimates the population increase for 8 northeastern counties of the state during the next 15 years to be 2,373,000, up from 4,041,000 in 1960 to 6,414,000 with 2,293,600 job opportunities in 1975.

We have reason to believe that large increases in population and job opportunities in other counties of the state will be substantial.

Public Service Electric and Gas Company is building for this growth and we intend to fulfill our responsibility by having adequate Electric and Gas service for the new industries that are bound to come, and for the employees they bring.

*(11 months actual — 1 month estimated)

PUBLIC SERVICE

Taxpaying Servant of a Great State

discussion of individual companies, characteristics of the most attractive railroad investments will be pointed out as a basis of examination. Some exception probably exists to each of the following standards, but they nevertheless represent valid generalizations.

► Look for railroads with long-hauls, with little intermediate traffic congestion. Examples: most of the Western transcontinentals, the Pocahontas roads (Norfolk & Western, Chesapeake & Ohio).

► Strategic connections with other roads and seaports are important. Example: **Denver & Rio Grande** reaches no major industrial areas at either end but has firm connections with **Burlington & Western Pacific**. Some of the forthcoming mergers could leave existing short-line roads out on a limb, by excluding them from former profitable routings.

► Avoid "terminal" roads with excessive branch trackage, such as **Boston & Maine**, **New Haven and Reading**.

► Passenger service is generally unprofitable, and roads burdened with frequent schedules will require very substantial offsetting advantages.

► Where other conditions are similar, more direct routes, lower grades and favorable operating conditions naturally represent a strong advantage.

► Generally, the roads in the South and the West—among them **Southern Railway**, **Seaboard Air Line**, **Atchison**, **Southern Pacific** and the two **Northerns** (**Great Northern** and **Northern Pacific**)—are much more attractive than those in the Northeast quarter of the country. Dividends are generally well protected, although reduced earnings may threaten reductions in a few cases (as has already occurred with **Louisville & Nashville**). At present prices the stocks mentioned above, and others, look like sound values, although lower prices may still be seen.

Over the long run the railroad industry is by no means devoid of interesting profit opportunities, although careful selection among roads and recognition of their substantial differences will be essential. END

Contrasting Prospects for the Individual Meat Packers

(Continued from page 449)

aided by a \$0.33 capital gain, rose for the third successive year and cash dividends were resumed after a twelve year lapse. Cash distributions will be supplemented from time to time with shares of **International Packers** acquired in 1958 in exchange for **Armour's International Food Division**.

Wilson & Company is the third largest packer and the largest manufacturer of athletic equipment. The company also deals in dairy products, poultry, eggs and vegetable oils.

Wilson was one of the first of the large packers to modernize operations and eliminate obsolete facilities. The result has been a fairly steady growth in earnings from a deficit of \$0.78 per share in 1952 to a profit of \$3.88 in 1959. Last year's earnings fell to \$0.53 largely because of a long strike during the first half of the fiscal year. Prospects for 1961 are favorable. Normal operations and a higher volume of livestock marketing should allow a major recovery in profits. At 43 the stock is near its all-time high, reflecting to a considerable extent the anticipated near term improvement.

The Cudahy Packing Company processes a full line of meat products with major emphasis on pork. The company also deals in dairy products, vegetable oils, eggs, poultry, soap and livestock feed and manufactures some pharmaceuticals.

Prior to 1955 **Cudahy** had one of the most erratic records in the industry with three deficits since 1949. Elimination of obsolete, high cost facilities and a program of modernization of remaining plant have put operations on a consistently profitable basis during the past five years. Sales in 1960 were off only about 4% from 1959 but per share earnings plummeted from \$1.43 to \$0.24 as the company paid Federal income taxes for the first time since 1953. Next year completion of improvements at the Omaha plant and a more favorable volume of livestock marketing should permit a substantial advance in earnings. The stock at 9 is near a two year low. No cash dividends have been paid since 1949.

International Packers, through its subsidiaries, is engaged in meat packing in Argentina, Brazil, Australia and New Zealand. The company also engages in oilseed processing and other aspects of the food business. Marketing of meat is world-wide with the United Kingdom the most important sales area. **International**, which originated as an outgrowth of **Swift's** international operations, acquired most of **Armour's** foreign meat packing business in 1958 in exchange for 885,000 shares.

The company has made considerable progress in recent years with per share earnings rising from \$0.44 in 1955 to \$3.11 in 1959. Integration of the **Armour** operations and a program of modernization of the Argentine properties could result in further improvement. While conditions appear relatively favorable at present, the necessity for the company to cope from time to time with political disturbance and exchange rate fluctuations as well as with the usual vagaries of the meat packing industry make the stock even more speculative than the usual packing issue.

John Morrell & Company is the fourth largest packer with about two-thirds of volume in pork. Packaged brand name products account for a substantial portion of sales. The company has shown a good record of advancing sales, partly as the result of acquisitions. Last year's per share earnings of \$3.17 were the second highest ever achieved by **Morrell** although down sharply from the \$5.68 earnings in 1959. The company attributed the decline to reduced profit margins in the second half as the result of "unsatisfactory relationship between livestock prices and wholesale meat prices." Important hog supplies are expected to be more favorable during 1961. At 33 the stock has fallen sharply from a high of 60 reached during 1960.

Hygrade Food Products markets a substantial portion of its meat products in the form of processed specialties including bacon, salami, sausages, frankfurters, bologna, smoked and cooked ham, etc. The company also sells dog food, instant coffee, cheese, butter, fertilizer and livestock feed.

(Continued on page 468)

AGAIN FOR YOU



IN '61

Union Pacific Resolves:

- **to continue** to be keenly aware of our responsibilities as one of the nation's leading railroads.
- **to strive** for perfection in every phase and department of our operation.
- **wherever** possible to improve our right-of-way, our freight equipment and handling facilities.
- **to continue** to treat our travel patrons as guests, ever mindful of their comforts and pleasures while on our Domeliners and Streamliners.
- **to maintain** a personnel that has both the ability and desire to make every Union Pacific patron—shipper or traveler—a *satisfied customer*.
- **in short**, to do everything possible to merit your patronage.



**UNION
PACIFIC**
Railroad
UNEXCELLED TRANSPORTATION
FOR PEOPLE AND PRODUCTS
Omaha 2, Nebraska

Last year's sales set an all-time record for the seventh year in a row. Higher raw material costs, however, narrowed margins and per share earnings fell off sharply from \$4.50 to \$3.54 on a larger number of shares. At 29 the stock is well down from its all-time high of 37 reached last year. The \$1.00 dividend, which is paid once a year in January, was supplemented with a 2% stock distribution in 1960 and 1961.

George A. Hormel & Co. conducts a general meat packing business specializing in canned meat products. Spam is probably the best known of the several brand names under which its products are sold. Since 1957 Hormel has packaged a line of meats for babies, marketed under the Hormel-Beech Nut label. Concentration on more highly processed meats has resulted in slightly wider margins. However, earnings have shown the sharp year to year swings typical of the industry. Last year earnings were off about 21% on a 4% drop in volume and a 7% cut in sales. At 33 the stock is well down from its 1959-60 high of 46. A large block of the outstanding shares is closely held, and there is only limited trading activity in the issue. END

Two Excellent Companies in a Growth Phase Today

(Continued from page 446)

acquired an aspect of growth in addition to its defensive merit. This was reflected in the drab 1960 stock market when Woolworth, running counter to the down trend, soared from 59 to its recent high of 75.

But what has caused this sudden change of character, and where do we go from here? It is clear that the development of earnings in 1960, while showing improvement, has not kept pace with the increase in the price of the stock, suggesting perhaps that the market anticipates good news still to come.

The Broad Expansion Program

For one thing the large-scale program for opening new stores is beginning to show results. Over the last five years the company plowed back \$185 million to open some 488 new stores, to relocate

125 units, improve 163 units, and refurbish 349. This total of 1,125 new or improved units is more than one-half of the total of 2,221 stores in operation at the end of 1959.

What's more, the capital program continues at a high level. In 1959 the company spent some \$36.2 million on improvements vs. \$28.5 million in 1958, and 1960 expenditures were probably fully as high. In 1960 Woolworth added about 150 new stores, relocated 20, and improved 90. Management expects to spend some \$150 million by 1964, thus continuing to add an average of one new store every three working days.

The new stores opened in 1960 were about 50% larger than those opened 5 years ago, and 55% of all of the stores are now the self-service type compared with 5% in 1953. Some 95% of the new stores currently added are self-service, significantly reducing labor cost. To finance this ambitious program Woolworth required some outside financing; it chose to increase long term borrowings from \$94 million to \$127 million over the five year period. However, with the addition of new stores, its cash earnings have climbed to the point where the continued program may now be financed entirely from internal sources.

Interesting Domestic and Foreign Earnings Picture

The company's sales goal for 1960 was set at a record \$1.0 billion vs. \$916.8 million in 1959. With profit margins assumed at about the same level as last year, 1960 per share earnings are estimated at \$4.30 against \$4.03 reported on 9.7 million shares in 1959. The German and Mexican subsidiaries will be consolidated for the first time in 1960 and the loss of Cuban properties will be written off. It is of real significance however that reported earnings include only the dividends received from unconsolidated foreign subsidiaries and not the company's share in the earnings. Thus if the earnings of the British and German subsidiaries were included in 1959 earnings, net per share in 1959 would have been 98¢ higher than the reported \$4.03. Earnings in 1959 may be broken down approximately as follows:

	Per Share
Variety store operations in U.S. and Canada	\$2.37
Dividends from 52.7% owned British subsidiary	1.41
Dividends from 97% owned German subsidiary	0.25
Total reported earnings ...	\$4.03
Equity in retained British earnings	0.68
Equity in retained German earnings	0.30
Total reported and unconsolidated earnings	\$5.01

Formidable and Aggressive Sales Position

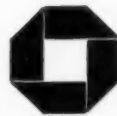
The company expects that foreign earnings will grow at about the same rate as U.S. earnings over the next few years, although they have been growing faster. (In the last decade Woolworth Ltd. of Great Britain increased its stores some 45% to 1,035, and the West German subsidiary having been completely wiped out in World War II was rebuilt to 91 stores.) English dividends should remain about the same over the near term, although the German payment may increase somewhat. Consolidated earnings plus the equity in foreign earnings might have approximated \$5.25 per share in 1960, and indications point to a further moderate increase in 1961.

Sales growth, in addition to benefitting from the addition of larger stores, will also benefit from new product lines, higher priced items, and a policy favoring more aggressive promotional activity. As far as profit margins are concerned, management hopes to maintain them over the next few years, but would not expect to increase them very much due to starting up costs of new stores and the higher promotional expense.

Woolworth is indeed a large customer for any supplier, its sales volume equaling one-third of the total volume done by all variety stores in the U.S. and being larger than its two nearest competitors combined.

Traditional variety store items will continue as the backbone of the company's business, since the demand for these items is dependable, has little seasonality, and the products have negligible spoilage along with a high rate of turnover. The addition of soft goods and high-ticket merchandise, some selling for \$100 or

(Continued on page 470)



THE CHASE MANHATTAN BANK

HEAD OFFICE: New York 15

Statement of Condition, December 31, 1960

ASSETS

Cash and Due from Banks	\$2,079,690,930
U. S. Government Obligations	1,779,252,940
State, Municipal and Other Securities	427,961,299
Mortgages	222,810,232
Loans	4,449,052,456
Less: Reserve for Loans	113,016,107
Banking Premises and Investment in Realty Affiliates	72,701,561
Customers' Acceptance Liability	266,667,058
Other Assets	75,318,803
	<u>\$9,260,439,172</u>

LIABILITIES

Deposits	\$8,143,349,599
Foreign Funds Borrowed	4,759,834
Reserve for Taxes	52,387,128
Acceptances Outstanding	277,719,938
Other Liabilities	82,389,484
Reserve for Contingencies	10,893,018
Capital Funds:	
Capital Stock	\$167,879,250
(13,430,340 Shares—\$12.50 Par)	
Surplus	400,000,000
Undivided Profits	121,060,921
	<u>688,940,171</u>
	<u>\$9,260,439,172</u>

Of the above assets \$566,923,691 are pledged to secure public deposits and for other purposes, and trust and certain other deposits are preferred as provided by law. Securities with a book value of \$53,468,048 are loaned to customers against collateral.

Member Federal Deposit Insurance Corporation

more, continues to attract interest, however, and in Cleveland and Detroit a credit plan was begun on an experimental basis to make easier the sale of the more expensive merchandise. However the average sales slip is still small, less than \$1.00, and not easily applicable to a credit plan. Recently Woolworth opened garden centers in residential areas and planned to open 20 in 1960, since there is no nation-wide distributor of garden supplies. Still another area of activity is Woolworth's enormous restaurant operations.

From An Investment Standpoint

The high asset value behind each share of Woolworth has intrigued investors with its great defensive strength. Reported book value of \$38.38 per share at the end of 1959 does not tell the whole story by any means as it does not include the market value of the investment in the British subsidiary. This would add some \$60 more per share. In addition, the 97% owned German subsidiary is carried on the books at only \$1.00 but, having paid some \$2.3 million to the parent company in dividends, is actually an important asset. It can be said that the market value of the company's foreign investments alone is worth more than the market value of the whole American company.

Thus Woolworth today is a defensive stock with a newly acquired, although moderate, upward trend in earnings, that nevertheless appears to have some momentum, and whose basic asset value per share is considerably higher than the market value. The stock at about 69 sells at 16.0 times estimated 1960 reported earnings of \$4.30 and yields 3.7% on the well-protected \$2.50 dividend. It should work out well for the patient investor. END

Business Analyst

(Continued from page 455)

and no longer in need of major correction. Construction contract awards have held up reasonably well in recent months, indicating a stable rate of building for early 1961.

Production of chemicals, paper and food have been stable in recent months; mild declines are probable for the chemicals and paper industries in the next few months, but not for food.

For **steel**, a mild strengthening of demand should appear by late winter; for **other metals**, production rates are still subject to moderate further decline before the inventory correction terminates. END

Appraising Investment Position of Utilities in 1961

(Continued from page 439)

continues to differ in various jurisdictions, and much of the popularity of the so-called "growth utilities" in Florida, Texas and several other states is due largely to the favorable regulatory climate. However, **Florida Power & Light**, which admittedly had been earning a very high rate of return, was recently ordered to reduce its rates by \$6,254,000 per annum beginning January 1. After taxes this will mean a cut of about 21¢ a share although it will probably still leave earnings at a level of nearly 7% on the rate base. In Pennsylvania, following the commission's examination of the earnings of a number of utilities, several moderate reductions were ordered: **Pennsylvania Electric** (a subsidiary of **General Public Utilities**) was ordered to cut rates \$2,002,000, reducing its return from 6.5% to 6% of capital; the amount was equivalent to only about 5¢ a share on GPU's stock.

If inflation is accelerated in 1961 or later by larger Federal expenditures, the utilities should not suffer to any great extent, judging from their good earnings records during the recessions of 1954 and 1958. Their recent prosperity both earningswise and marketwise may, however, make commissions and courts somewhat less sympathetic to pleas for increased rates. It seems unlikely that any states still on an "original cost" basis will move to the more liberal "fair value" rate basis. Moreover, the trend toward emphasis upon "flow-through" with respect to tax savings from the use of accelerated depreciation seems likely to continue, since this gives the Commissions

an "easy out" when asked for rate increases. In 1960 the commissions in California, Ohio, New Jersey, Virginia and North Carolina indicated that they favored this method of accounting, as a means of limiting rate increases granted. To be sure, stockholders do benefit by flow-through, although only temporarily. However, its recognition in rate cases means that no reserves are being set up for the future contingency that Congress might abolish this tax concession, or that taxes might increase in some future years when construction programs are curtailed.

Because these special tax savings increase every year more or less automatically so long as the utilities grow, they may give a false impression of growth in share earnings. Accordingly, it is essential for analysts and investors to familiarize themselves with the practice followed by individual utilities, since share earnings (as between a company which uses flow-through and one which "normalizes") are no longer on a comparable basis. Some companies do not use accelerated depreciation at all, which adds a further complication to the picture.

Impressive Technical Progress

Apart from regulatory and accounting problems, the electric utilities will continue to benefit by steadily increasing efficiency in operations, by which they are able to offset higher wage rates and other inflationary trends. New generating plants are consistently larger than the earlier units and require fewer employees—some of them, such as the Little Gypsy station of **Middle South Utilities**, can be made almost completely automatic by using computers. In many areas neighboring utilities now pool their resources to build large units; one company will build a bigger unit than it needs and sell excess power to its neighbors, while next time another company will build a unit. New transmission lines now carry more electricity, and some plants can locate at coal mines so that the cost of moving the coal is eliminated.

The utilities also save money in engineering, accounting and *(Continued on page 472)*



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PRESIDENT



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customer billing with computers. Atlantic City Electric's new EDP center is probably the most advanced accounting and data processing facility of the electric utility industry. It has been built to allow for a decade of growth. The RCA 501 and related facilities can process about two million characters a minute and paper work takes only half the time previously required, while accuracy is checked by a number of automatic controls.

Liberal Price-Earnings Ratios

The electric utility companies, although not favored by a good air conditioning load last summer, and affected moderately by the business recession, are nevertheless showing an average gain of about 7% in share earnings over 1959, as compared with a general decline in earnings for most other industries. The average electric utility is now selling at over 18 times earnings, it is estimated, compared with 16.7 times in December, 1959.

Steady Gains Indicated for Gas Distribution Companies

As indicated at the beginning

of this article, the gas distributing stocks have done better marketwise in 1960 than the electric utilities, although the transmission (pipelines) stocks have lagged behind other groups. The distribution companies were favored by cold weather during the 1959-60 heating season, and again in the current season. Revenues in 1960 increased 12% and average share earnings (based on latest available 12 months' figures) gained 14%. The number of residential heating customers increased nearly 8% in 1960, and now constitute about 69% of all residential users. Commercial sales made a still better showing with revenues up about 16%; but industrial sales, due to the downturn in business, were up only 3%.

Despite regulatory problems with respect to rates charged by pipelines and other integrated gas systems, the natural gas industry continues to forge ahead, due in part to the continued backlog of demand for conversion of house-heating facilities from oil to gas. In some parts of the country, such as southern California

and Texas, heavy saturation of the gas heating market has now occurred, but in the northern states there are still many areas where saturation is relatively low and the demand is far from satisfied.

Heavy Outlays for Storage, Other Purposes, to Continue

The industry spent about \$1.9 billion on construction in 1960, and has budgeted about \$2.2 billion for 1961. The total investment in plant has increased almost 200% in the last decade, and is expected to more than double during the coming ten years. Storage facilities are rapidly being constructed; the 209 storage pools now in use hold about two months' supply of gas. This is a favorable earnings factor since storage permits the extra gas accumulated during the summer months to be held for the house-heating season, instead of being "dumped" in the summer for industrial use at very low prices. In 1960 some \$76 million was spent to develop storage facilities and further expenditures for the same purpose are expected to remain substantial over the next few years.

An increasingly heavy demand exists for gas in California as boiler fuel since it does not produce as much smog as oil. Local supplies are being fully used, and any new gas must come from outside the state. A \$193 million pipeline from Texas to southern California was completed late in 1960. The northern part of the state also needs more gas and Pacific Gas & Electric (through a subsidiary) has begun the construction of a 614-mile line from the British Columbia border to this area.

Montana Power, El Paso Natural Gas and Tennessee Gas are also seeking permission to import additional gas from Canada.

Protracted Rate Cases Cloud Pipeline Earnings Picture

But while the big pipelines and integrated systems are continuing to expand, they have been handicapped by higher costs of financing and by the uncertainty over portions of their net earnings to be reserved for refund to their customers in the event of an unfavorable decision by the FPC upon their rate increase applications. Some of these cases are now three or four years old,

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with the result that adverse decisions might prove an unexpected blow to earnings. The reason for the large number of these cases is the steady rise in field prices of natural gas in recent years, which must be passed on through two or three companies before it reaches the consuming public, thus resulting in a maze of Federal and state litigation.

Unfortunately, the FPC's already heavy regulatory burden was greatly increased by a court decision requiring it to regulate also the prices of gas charged by the independent producers (including oil companies). The Commission recently has proposed a new method to deal with this regulatory responsibility, by setting up "fair field prices" for gas produced in each area, but whether this method will be sustained by the courts is not assured. The City of Detroit decision has already been adverse.

The Commission's tendency in several recent pipeline cases to use the rate of return earned on book value of common stock as a test of "fair return" has raised fears that this new method may be applied uniformly in the future. Some comfort was offered, however, when Chairman Kuykendall, in a recent talk before the New York Society of Security Analysts, stated that while return on equity is important, it is only one among several regulatory factors to be considered.

The market record of the communication stocks in 1960 has also been quite good, although movements have been more irregular. American Telephone has recently spurted to a new high, around 107, while General Telephone and Western Union, which had been very strong earlier in the year, closed well below their highs. International Telephone has also been very strong. The stocks of some of the small independent companies have not done so well, although United Utilities has enjoyed a good advance. On the whole, the group has probably performed somewhat better than the electric utilities—a comprehensive stock index of this group is not available.

American Telephone's Role in Space Exploration

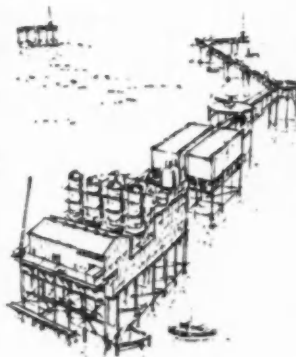
The recent interest in American Telephone was aroused first

NEW THINGS ARE HAPPENING AT FREEPORT

This past year Freeport increased greatly its sulphur productive capacity and brought its developed reserves to the highest point in its forty-eight year history. The company also undertook a major new marketing program.

Two new mines were brought into production in 1960. Grand Isle, located seven miles off the Louisiana shore, ranks among the world's largest sulphur mines. Lake Pelto, a smaller property opened at year's end, brought to five the number of Freeport mines.

Under the new marketing program, the company will be able to supply consumers in major markets with sulphur in liquid form—the form in which most of it is used—rather than the traditional solid form. New liquid storage terminals being built on the inland waterways and on the East Coast will provide customers with a more convenient, a more readily useable product in quicker time.



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effective
JAN. 9, 1961



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MFS... ticker symbol for Mountain Fuel Supply Company common stock, admitted to trading January 9, 1961, on the New York Stock Exchange. Organized in 1935, Mountain Fuel Supply Company produces, transports, and distributes natural gas, and now serves more than 172,000 customers in Utah and southwestern Wyoming.

MOUNTAIN FUEL SUPPLY COMPANY

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Salt Lake City 10, Utah

by news stories regarding the "fifty satellites" and other revolutionary new methods of communication, and later by the announcement that an increase in dividends is planned for next July. The A.T.&T. subsidiaries, Bell Laboratories and Western Electric, are aiding the government in the new study of space. They devised the Command Guidance System for Tiro II, the weather satellite now in orbit. Over 9,000 solar cells (invented by Bell) surround Tiro II and provide power for its many instruments—TV cameras, tape recorders, etc. The proposed fifty satellites (which the Bell System is willing to build and operate on its own, although government assistance in launching them would be welcome) would be used to "bounce" TV programs to Europe and do other heavy-duty communications chores, such as transmission of computer data. President Eisenhower, in a state-

ment issued December 30, encouraged private industry to establish new satellites, but of course President-elect Kennedy will have the final word.

Western Union a few weeks ago signed a contract with the Air Force for construction of a microwave system between certain cities, to be completed in about two years; and it has plans to extend this system to a big nation-wide communications network to supplement its present wire system. This would be an expensive undertaking but the company seems confident that with the Air Force project as a base, its long range plans can eventually be realized. While 1960 earnings will show a decrease due to a variety of factors, the company expects some improvement in 1961, assuming that general business picks up by mid-year and the company obtains a long-pending rate increase from the FCC.

END

FEDERAL

FEDERAL PAPER BOARD CO., Inc.

Common & Preferred Dividends:

The Board of Directors of Federal Paper Board Company, Inc. has this day declared the following quarterly dividends:

50¢ per share on Common Stock.
28½¢ per share on the 4.6% Cumulative Preferred Stock.

Common Stock dividends are payable January 14, 1961 to stockholders of record at the close of business December 29, 1960.

Dividends on the 4.6% Cumulative 28½¢ par value Preferred Stock are payable March 15, 1961 to stockholders of record February 28, 1961.

ROBERT A. WALLACE
Vice President and Secretary
December 13, 1960
Bogota, New Jersey

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The Resilient Cushion Under Our Economy

(Continued from page 425)

induces. Just the same, there are some very effective replies to his charges.

► First of all, his scheme would represent a serious defeat for economic democracy. Every man's income, beyond necessary taxes, should belong to him; any deprivation, even for his imagined benefit, represents a loss of his freedom. In a sense, every dollar is a vote; the citizens choose, with their dollars, the products and services which they want. Any program for allocating or controlling our purchasing power is authoritarian. Beyond this, it is arrogant for any bureaucrat to decide that he can determine for other, better than they can for themselves, what constitutes their "pursuit of happiness."

Destruction of Incentive

It must also be considered whether the existing incentive for work and production would survive a large-scale transfer of individual purchasing power to the government. Although a small segment of our society is content to live on welfare payments, a considerably larger proportion is strongly intrigued by the attrac-

tion of time-and-a-half for overtime work.

Taxation—The point at which higher taxation will destroy incentive is impossible to pinpoint. It is true that the 52% corporate tax has apparently had no great effect of this sort—other than the bolstering of the expense account—but this levy has really been passed on to the consumers and does not represent a net burden upon the corporation. Similarly, the very high taxes upon top bracket salaries of executives do not seem to have become self-defeating as yet, but here too, a special explanation may be found. By a variety of fringe benefits, privileges and option schemes, these executives have awarded themselves adequate compensation for the regular income lost.

Imagine, however, that 40%, 50%, and 60% tax rates are levied upon \$6,000, \$8,000 or \$10,000 incomes. If the initial frantic search for loopholes is unavailing, how long will incentive last? Fortunately the problem is still hypothetical, but all experience suggests that such slashing of the crucial after-tax income would destroy the essential motivation for our high-level economy.

Professor Galbraith, although quoted approvingly by left-wing members of the Democratic party, was not, as many feared, enrolled among the Kennedy advisers during the recent campaign, and has not so far been called to a post in the new administration. It seems probable now that more realistic economic views will prevail.

Planning Must Recognize Basic Motivations

The high level of middle class income, important as it is, cannot assure continuous prosperity for every industry. Tastes will change, new products will out-mode old ones, and industries must flourish or decay in consequence. But high purchasing power, if not handicapped by excessive burdens or ill-conceived schemes of control, will maintain a strong, resilient foundation under the entire economy. "Rolling adjustments" will still be painful for companies and individuals, and sound planning to alleviate their effects is entirely justified. Results should be beneficial as long as the basic character of our economy is recognized and its motivation preserved.

END

588 Points Gain On Our 22 Stocks With New 1961 Selections To Come

SOUND PROGRAM FOR 1961 A FULLY ROUNDED SERVICE For Protection — Income — Profit

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OUR audit of our 70% invested position on December 19 showed 588 points profit available, over and above any losses. Of the stocks held since the start of 1960 more than half actually INCREASED in value despite the decline since the market reached its high on January 5. For example:

American Chicle, then 54 is now 71½, up 17½.

American Tobacco, then 105, has split 2-for-1 and is now 64 (128 for old shares), up 23.

Deere advanced from 46¾ to 54¾, up 8.

Reynolds Tobacco, then 58½ is now 91¾, up 33¼.

Those Forecast stocks which lost some ground in sympathy with general market weakness are all thoroughly sound with strong recuperative qualities and include long-term backlog issues on which sizeable gains have accrued.

We have every confidence that the impressive gains our advices have built up will be greatly increased when we give the buying signal for rare new opportunities as they emerge in 1961.

Therefore, we are extending a SPECIAL BONUS OFFER OF EXTRA SERVICE to encourage you to join The Forecast now when it can be most rewarding in helping you to put your investment house in order—and to share in our 1961 programs from their inception, when profit potentials are usually the greatest.

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- ★ Then ask yourself, "Should I repurchase my former holdings as offering the *most outstanding* prospects for safety, income, profit—or could all or part of my funds be used more profitably in the coming year? Should I invest my cash now?"
- ★ Some investors who test their lists honestly find that they are holding securities for unsound reasons: (1) because they dislike to take losses even in weak issues; (2) because they like to see issues on their list which show a profit, even though the future has been discounted; (3) because they are sentimentally attached to inherited securities, or shares of a company for which they work; (4) because they feel that they might have difficulty in deciding upon a replacement; (5) because they are worried about taxes resulting from security changes; (6) *procrastination*.
- ★ Today there is no need to hold unfavorable investments which may be retarded in 1961, or those where dividends are too low or in doubt. Selected issues are available which offer a substantial income, a good degree of security and promising growth prospects if your purchases are strategically timed.
- ★ As a first step toward increasing and protecting your income and capital in 1961 we suggest that you get the facts on the most complete, personal investment supervisory service available today.
- ★ Investment Management Service can be of exceptional benefit to you in the new year... for while there will be a leveling off (or even recession) in some fields, others will show sustained strength. The year ahead may witness *amazing scientific achievements, industrial advancement—and investment opportunities—*of which we can help you to take advantage.
- ★ *Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee... and to answer any questions as to how our counsel can help you to attain your objectives.*

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To our employees—it means better, more secure, more stable jobs.

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To our company—it means higher efficiency, lower costs, greater stability throughout our operations . . . factors which provide us with a stronger competitive position in the market place.

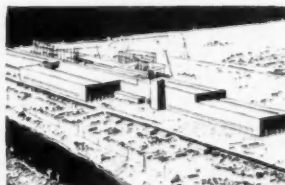
To you as a consumer of steel—it means better products because of better steel. It means greater value for your dollar in the steel products you buy.

As our new facilities become operative in 1961, each will add its distinct and important contribution to the firm foundation for future growth, progress and stability at National Steel.

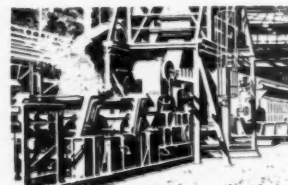
Six major steps to further progress



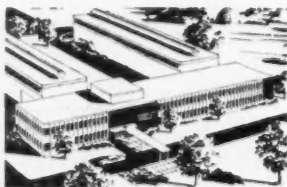
At Great Lakes Steel
in Detroit, the computer-controlled Mill of the Future—fastest, most powerful 80" hot-strip mill in the world—will provide more and better auto body sheets.



At Midwest Steel
near Chicago, the most modern and efficient steel finishing plant in existence will provide the finest tin plate, galvanized sheets, hot and cold rolled.



At Weirton Steel
in Weirton, W. Va., new and improved facilities will increase the production and improve the quality of Weirton's tin plate, galvanized and cold rolled sheets.



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